MILKILAND N.V.

a limited liability company (Naamloze Vennootschap), having its registered office at Reinwardtstraat 232, 1093HP Amsterdam, the Netherlands and registered with the Chamber of Commerce under number 34278769

Offering of up to 7,000,000 Shares, with a nominal value of EUR 0.10 each and admission to trading on the main market of the Warsaw Stock Exchange of all the Shares issued in the share capital of Milkiland N.V.

This document (the "Prospectus") has been prepared for the purpose of (i) the offering (the "Offering") of 6,250,000 ordinary bearer shares in the share capital, each with a nominal value of EUR 0.10 (the "Shares"), in Milkiland N.V. (the "Issuer"), and (ii) the admission of the entire issued share capital of the Issuer *(i.e*., up to 31,250,000 Shares) to trading on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, the "WSE"). The Issuer will be offering for subscription up to 6,250,000 newly issued Shares (the "New Shares") to be issued by the Issuer and additional up to 750,000 existing Shares ("Over-allotment Shares") in connection with the Over-allotment Option, held by the Issuer's majority shareholder, 1, Inc. Cooperatief U.A. (the "Selling Shareholder"), a co-operative organized under the laws of the Netherlands. Such New Shares and Over-allotment Shares are referred to, where the context permits, as the offer shares (the "Offer Shares"). The Issuer will only receive the net proceeds from the sale of the New Shares, whereas the Selling Shareholder will receive the net proceeds from the sale of the Over – allotment Shares. The Offer Shares offered in this Offering constitute a minority interest in the Issuer. Prior to the Offering, the Selling Shareholder holds 94% of the issued share capital of the Issuer.

The Offering consists of (i) a public offering in Poland and (ii) an international offering to certain institutional investors outside Poland, in each case in accordance with applicable securities laws.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or with any securities regulatory authority of any state or any jurisdiction in the United States. The Offer Shares are being offered and sold only outside the United States in accordance with Regulation S under the US Securities Act ("Regulation S") and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. See "*Selling Restrictions*".

The Offer Shares are being offered, as specified in this Prospectus, subject to cancellation or modification of the Offering and subject to certain other conditions.

This Prospectus constitutes a prospectus for the purposes of Article 3 of European Union (EU) Directive 2003/71/EC (the "Prospectus Directive") and has been prepared in accordance with Chapter 5.1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder (the Dutch Financial Supervision Act). The Autoriteit Financiële Markten (the "AFM") in its capacity as the competent authority in the Netherlands under the Dutch Financial Supervision Act, has approved this document as a prospectus. The Issuer has requested that the AFM provide the competent authority in Poland, Komisja Nadzoru Finansowego (Polish Financial Supervision Authority, the "PFSA") with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive. **See "*Risk Factors*" for a discussion of certain considerations to be taken into account when deciding whether to invest in the Offer Shares.**

Prior to the Offering, there was no public market for the Shares. Based on this Prospectus, the Issuer intends to apply for the entire issued share capital as at the Settlement Date as defined below (*i.e*., up to 31,250,000 Shares), including the Offer Shares, to be admited to listing and trading on the main market of the WSE (the "Admission"). The Issuer expects that trading in the Shares on the WSE will commence on or about 6 December, 2010 (the "Listing Date"). Settlement of the Offering is expected to occur on or about, 6 December 2010 (the "Settlement Date"). Prospective retail investors may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 16 November, 2010 and is expected to end on or about 25 November, 2010 and prospective institutional investors (other than "U.S. persons" as defined in the Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 26 November, 2010 and is expected to end on or about 29 November, 2010 (the "Subscription Period"). The final offer price (the "Offer Price") will be determined jointly by the Issuer and the Selling Shareholder upon recommendation of the manager named herein (the "Manager") after completion of bookbuilding for institutional investors on or about 26 November, 2010, based on interest from investors and will, in accordance with Art. 5:18 of the Dutch Financial Supervision Act, be filed with the AFM and published in the same manner as this Prospectus. The Offer Price will be denominated in PLN. If the Offering is cancelled or postponed prior to the Settlement Date, all subscriptions for the Offer Shares will be disregarded and any subscription payments made will be returned without interest or any other compensation. All dealings in the Offer Shares prior to settlement of the Offering and delivery of the Offer Shares are at the sole risk of the parties concerned. The results of the Offering will be published by a way of a current report, as well as on the website of the Issuer.

In connection with the Offering, the Selling Shareholder has granted to UniCredit Bank Austria AG (the "Underwriter") and UniCredit Bank AG (London Branch) ("the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager") an option (the "Over-allotment Option"), exercisable for 30 calendar days after the announcement of the Offer Price, i.e. 30 calendar days after the Pricing and Allotment Date, to make available additional 750,000 existing Shares or representing up to 12 % of the aggregate number of Offer Shares available in the Offering, i.e. the Over-allotment Shares at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions, if any. Such stabilisation shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments (the "Stabilisation Regulation").

All the Shares are ordinary bearer shares and will exist in the territory of Poland in book entry form once they have been registered with the Polish clearing and settlement institution – the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych S.A*., the "NDS"). Shareholders in the Issuer may hold the Offer Shares through the NDS participants, such as investment firms and custodian banks operating in Poland.

Offer Price: To be determined in PLN and announced on or about, 26 November 2010

UniCredit CAIB Poland S.A. will act as the offeror and listing agent for the Offering and listing of the Shares on the WSE (the "Offeror"). UniCredit Bank AG (London Branch) is the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager of the Offering.

Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager
UniCredit Bank AG (London Branch)
The date of this Prospectus is 10 November 2010

Co-Lead Manager
Concorde Capital

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SUMMARY

The following constitutes the summary of the essential characteristics and risks associated with the Issuer, the Group and the Shares. This summary should be read only as an introduction to this Prospectus and contains information included elsewhere in this Prospectus. It is expressly pointed out that this summary is not exhaustive and does not contain all information which is of importance to prospective investors. Reading this summary should in no way be considered a substitute for reading this Prospectus in its entirety. Prospective investors should read this Prospectus thoroughly and completely, including the "Risk Factors", any supplements to this Prospectus required under applicable laws and the Financial Statements and other financial information and related notes, before making any decision with respect to investing in the Offer Shares. No civil liability will attach to the Issuer and other companies of the Group in respect of this summary (including the Summary Financial and Operating Data) or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Summary of the Business

Milkiland is a diversified dairy producer operating in the CIS, one of the largest and dynamic dairy markets globally, with principal operations in Ukraine and Russia. The Group's holding company Milkiland N.V. (the Issuer) is incorporated in The Netherlands, while activities in the CIS are conducted through its wholly-owned Ukrainian subsidiary DE Milkiland-Ukraine ("Milkiland-Ukraine") and Russian 85.78% owned OJSC Ostankinsky Molochny Combinat ("Ostankino"). The Group operates 10 production facilities in Ukraine and one plant in Russia.

Milkiland produces a wide range of dairy products and focuses principally on whole milk products and cheese. In 2009 the Group processed 550 thousand tonnes of milk and produced 144.5 thousand tonnes of whole milk products, 30.4 thousand tonnes of cheese, 15.0 thousand tonnes of dry milk products, and 6.2 thousand tonnes of butter. The Group is one of the leading players in the CIS region, after Danone-Unimilk and Wimm-Bill-Dann, ranking in volume terms, third in hard cheese and among the top five producers in whole milk products.

The Group has grown from a EUR 10.3 million revenue company in 2000 to a diversified dairy producer with a EUR 200 million turnover in 2009, posting a further 21% year on year increase in revenues in the first half of 2010. The Group has expanded both organically and through acquisitions.

The Group has developed a distinct business model combining the diversified product portfolio, a "value for money" offering for consumers, extensive raw milk supply sources and stringent cost management. As a result the Group's historical profitability, as measured by the EBITDA margin of 16% in 2009, compares favourably with its peers.

Business Strategy

Being one of the largest dairy players in the CIS by revenues, the Group believes that it can capitalise on significant market growth potential and the industry fragmented structure, by identifying attractive consolidation opportunities and continuing its organic growth. In the medium term the Group envisages itself as a clear market leader in cheese and one of the leading whole milk producers in the CIS. The Group's strategy rests on the key pillars described below.

Based on its established image as a high quality dairy producer, the Group intends to differentiate itself as "supplier of choice" for families, delivering its dairy products from the "meadow grass" to people's homes. The Group plans to offer a full range of everyday dairy products to consumers, with a focus on cheese and whole milk products. The Group believes that it knows how to create new products which are appealing to its consumers with their healthy, genuine qualities and superior taste.

Geographically, the Group focuses on the CIS, and plans to extend its production footprint in these core markets. In particular, the Group plans to set up sizeable cheese-making facilities in Russia with 15-20 thousand tonnes of annual output. In order to achieve this, the Group is contemplating either an acquisition, or a brownfield project.

The Group's growth strategy implies gaining share from small producers. The CIS dairy industry, especially the cheese segment, is highly fragmented with small local players supplying over half of the market with mediocre products. Such local players are not likely to survive in the long run. The Group has already proved its ability to grow successfully in such environment, and plans to further gain market share by expanding its capacities and selectively integrating local players.

To support its growth and ensure a quality product offering, the Group plans to establish its own milk production facilities in order to eventually satisfy 20-25% of its internal needs. The price and quality of raw milk contribute to the appeal of end products to consumers. Access to raw milk has recently become the key challenge for dairy producers in the CIS, as local dairy farming is slowly returning to growth and lagging behind expanding demand.

Competitive Strengths and Advantages

The Group is one of the most prominent dairy companies in the CIS, as evidenced by its growth, strong profitability and cash flows. The Group believes that its success rests on competitive strengths, as outlined below.

Management team: the Group's top management team, namely the Chairman of the Board, CEO, and COO, have been with the Group from its foundation, having successfully transformed obsolete scattered capacities into state-of-the-art operations with international distribution and recognized brands. The top managers are also the Group's owners and therefore devoted to the long-term sustainable growth of their business.

Diversified revenues: the Group operates across various dairy segments with different consumption patterns. Such a product portfolio, combined with flexible production capacities, provides a natural hedge in a volatile market environment. In addition, the Group has access to different geographical markets and is therefore able to diversify its country risks to a certain extent. As a result, the Group's EBITDA margin averaged approximately 15% during 2006-2009, well above its peer group, even at times of unfavourable market developments such as the Russian ban on dairy imports in 2006 and the global financial crisis of 2008.

Secure raw milk supplies: the Group has built up an extensive milk collection system to ensure secured raw milk supplies. It also invests in modern dairy farms to bolster raw milk supplies and quality. The Group believes that its focus on supply will secure reliable access to quality raw milk at an acceptable price, enabling it to offer quality products to its customers, while controlling costs and increasing its margins.

Strong local brands: the Group's Dobryana brand accounted for over EUR 70 million of sales in 2009 and is one of the largest dairy brands in the CIS enjoying high recognition and customer loyalty in the medium price segment. In 2009 Dobryana-branded cheese sales increased from 18.8 thousand tonnes to 24.1 thousand tonnes amid flat sales of cheese overall in the CIS market. Also, after the acquisition of Ostankino, the Group's brand portfolio was enhanced by the Ostankinskaya brand, which is one of the popular dairy brands in Moscow.

Summary of Risk Factors

Risks Relating to the Group's Business and Industry

- *The Group's business could be adversely affected if the special VAT regime and state support to agricultural producers in Ukraine is cancelled or modified*
- *The Group's exports of cheese to Russia may be adversely affected*
- *Any significant increase in the prices of the raw materials could adversely affect the Group's profit margins and / or make its products less appealing to consumers*
- *The Group may not be able to source sufficient quantities of raw milk of an acceptable quality*
- *The Group may be unable to obtain VAT refund on the exports of its goods*
- *The Group has been, and will continue to be, controlled by two majority shareholders, and depends on the services of the Chief Executive Officer and Chief Operating Officer*
- *Any contamination of the Group's products could adversely affect the Group's reputation, results of operations and financial condition*
- *Certain of the Group's credit facilities are repayable on demand and/or subject to certain covenants and restrictions*

- *The Group may not be able to achieve, maintain or increase its market share*
- *The Group's key brands or reputation could be damaged in the future*
- *The Group may not be able to successfully implement its expansion strategy and even if such strategy is successful, the Group may be unable to meet the demand for its products in the future*
- *The Group is subject to the risks of international expansion*
- *The Group is dependent on third party suppliers of its equipment and packaging materials*
- *The Group operates in a competitive environment and may be subject to higher competition in the future*
- *As the Group is one of the leading milk processors in Ukraine, it may face claims that it has abused its dominant position*
- *The Group's operations may be subject to business interruption*
- *The loss of key customers could have an adverse impact on the Group's financial results*
- *Outbreaks of diseases could affect livestock and crops in Ukraine and Russia*
- *The Group is dependent on qualified personnel*
- *The Group's business is working capital intensive and the Group's ability to finance its business depends on generating sufficient capital to support its operations*
- *The Group's trademarks and other intellectual property rights may not adequately protect its products and brands and it may face challenges to its intellectual property rights and applications and claims that it has infringed the intellectual property rights of others*
- *The Group is subject to exchange and interest rate risk*
- *Inflation could increase the Group's costs and adversely affect its margins*
- *If in the future the Group extends credit to more customers or for a higher share of its sales in response to competitive pressures, it will be subject to greater credit risk*
- *The Group may be in the future subject to litigation which could have a material adverse effect on the Group's business*
- *The Group may be subject to claims and liabilities under environmental, health, safety, sanitary, veterinary and other laws and regulations which could be significant*
- *The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*
- *The Group has engaged and may continue to engage in related party transactions*
- *The Group is not able to exercise its voting rights in respect of all shares it holds in Ostankino as a result of violating of Russian corporate laws*
- *The Group's insurance coverage may be inadequate*
- *The Group could face legal consequences for violations of certain Ukrainian and Russian corporate laws and regulations*
- *The Group may be subject to penalties imposed by the Antimonopoly Committee of Ukraine*
- *The Group may be subject to fines for violation of Ukrainian currency control legislation*

- *The Group's business could be adversely affected if detrimental price controls are introduced for the Group's key products*

- *The Group may lose control over some of its subsidiaries as the result of bringing its activities in compliance with the new Ukrainian JSC Law*

- *The Group may be limited in its ability to obtain ownership rights to land or renew its lease agreements or the payments under the Group's land lease agreements may increase*

- *The Issuer may become tax resident in a jurisdiction other than the Netherlands*

Risks Relating to Ukraine

- *Political considerations*

- *Economic considerations*

- *Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect its financial condition and results of operations*

- *Regional relationships*

- *Ukraine's developing legal system*

- *Ukraine's judicial system*

- *Ukraine's physical infrastructure is in poor condition, which could disrupt normal business activity*

- *The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings*

- *Economic instability in Ukraine could adversely affect the Group's business*

- *Fluctuations in the global economy*

- *Corruption and money laundering issues*

- *Ukrainian tax system*

Risks Relating to Russia

- *General*

- *Political and governmental considerations*

- *Economic instability in Russia could adversely affect the Group's business*

- *Crime and corruption could disrupt the Group's ability to conduct its business*

- *High levels of inflation in Russia*

- *Russia's physical infrastructure is in poor condition, which could disrupt normal business activity*

- *Changes in the foreign policy of the Russian Government and changes in its key relationships could adversely affect the Russian political and economic environment in general*

- *Expropriation and nationalization*

- *Social instability caused by weakening economic conditions as well as high levels of crime in Russia could increase support for renewed centralized authority, nationalism or violence*

- *The Russian legal system and Russian legislation are still being developed and this may create an uncertain environment for investment and for business activity*
- *The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings*
- *Russian tax law and practice are not fully developed and are subject to frequent changes*
- *Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its Russian subsidiary*

Risks Related to Shares, Listing and Trading on the WSE

- *Investors' shareholding, voting rights and the earnings per Share may be diluted*
- *The market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares*
- *There is no guarantee that the Issuer will pay dividends in the future*
- *The price of the Issuer's Shares may fluctuate*
- *Securities or industry analysts may cease to publish research or reports about Issuer's business or may change their recommendations regarding the Issuer's Shares*
- *The Issuer may be unable to list the Issuer's Shares on the WSE*
- *Trading in the Issuer's Shares on the WSE may be suspended*
- *The Issuer's Shares may be delisted from the WSE*
- *There can be no assurance regarding the future development of market for the Shares and its liquidity*
- *The marketability of the Issuer's Shares may decline and the market price of the Issuer's Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Issuer's operating performance and decline below the Offer Price*
- *The Issuer will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares*

Summary of the Offering

The Issuer	*Milkiland N.V. (the "Issuer"), is a Dutch limited liability company (naamloze vennootschap). The Issuer is registered under number 34278769 with the Trade Register of the Chamber of Commerce of Amsterdam, the Netherlands. The statutory seat of the Issuer is Amsterdam, the Netherlands and the registered offices of the Issuer are at Reinwardtstraat 232, 1093 HP Amsterdam, the Netherlands. The telephone number of the registered office is + 38 044 369 52 53.*
The Selling Shareholder	*1, Inc. Cooperatief U.A.*
The Offering	*This offering (the "Offering") consists of a public offering to: (i) retail investors in the Republic of Poland (the "Retail Offering") and (ii) institutional investors in the Republic of Poland (the "Polish Institutional Offering" and, together with the "Retail Offering", the "Polish Public Offering") (iii) institutional investors outside the United States (excluding the Republic of Poland) in reliance on Regulation S under the U.S. Securities Act (the "International Offering" and together with the Polish*

Institutional Offering, the "Institutional Offering").

***Offer Shares*..** *On the basis of this Prospectus (the "Prospectus"), Milkiland N.V. ("Milkiland", the "Company" or the "Issuer") is offering for subscription up to 6,250,000 newly issued Shares (the "New Shares") to be issued by the Issuer and for sale up to 750,000 existing Shares (the "Over – allotment Shares") held by the Selling Shareholder. Such New Shares and Over – allotment Shares are referred to, where the context permits, as the offer shares (the "Offer Shares").*

***Form of Shares*...** *All the Shares are ordinary bearer shares and will exist in book entry form once they have been registered with the National Depository for Securities (the "NDS") in Poland. Shareholders in the Company may hold them through the NDS participants, including investment firms and custodian banks operating in Poland.*

The Company will apply for registration of all the Shares issued in its share capital, including the Offer Shares, with the NDS. It is expected that soon after the Settlement Date, all of the Shares, including the Offer Shares, will be registered with the NDS and will exist in book entry form.

***Shares Outstanding before and after the completion of the Offering*..............................** *As at the date of this Prospectus, the authorized share capital of the Issuer amounts to EUR 5,000,000 divided into 50,000,000 Shares, with a nominal value of EUR 0.10 each. The issued and paid-up share capital of the Issuer, as at the date of this Prospectus, amounts to EUR 2,500,000 and is divided into 25,000,000 Shares with a nominal value of EUR 0.10 each. All of the Shares are ordinary Shares, are fully paid up and rank pari passu with each other and there is no other class of shares authorised.*

Upon completion of the Offering no more than 31,250,000 Shares will be issued and outstanding which Shares will comprise the Group's share capital in the amount not exceeding EUR 3,125,000.

***Subscription Periods*...** *Prospective Retail Investors in Poland (other than "U.S. persons" as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 16 November 2010 and is expected to end on or about 25 November 2010, whereas Institutional Investors (other than U.S. persons as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 26 November 2010 and is expected to end on or about 29 November 2010.*

***Offer Price*..** *The price at which subscriptions of the Retail Investors will be accepted will be determined by the Company and the Selling Shareholder, in agreement with the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager and the Offeror, on 15 November 2010 at the latest (the "Maximum Price"). The issue price of New Shares (the "Issue Price") and the sale price of the Over – allotment Shares (the "Sale Price", and together with the Issue Price, the "Offer Price") shall be determined jointly by the Company and the Selling Shareholder, in agreement with the Sole Global Coordinator and Sole Bookrunner and Stabilisation Manager and the Offeror, prior to the commencement of subscription by the Institutional Investors, on 26 November 2010 (the "Price Determination Date"), on the basis of the evaluation of the level of the investors' interest in acquisition of the Offer Shares. The Offer Price for Retail*

Investors shall not exceed the Maximum Price. The Offer Price for Institutional Investors may exceed the Maximum Price. The Maximum Price and the Offer Price will be denominated in PLN.

Allotment	*Allotment will occur promptly following the Subscription Period, and is expected to take place on or about 30 November 2010, subject to acceleration or extension of the timetable for the Offering at the discretion of the Company and the Selling Shareholder.*
Over-allotment Option.....................................	*In connection with the Offering, the Selling Shareholder has granted to the Underwriter and to the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager the Over-allotment Option, exercisable for a period of up to 30 calendar days after the Listing Date, pursuant to which the Underwriter and the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager may require the Selling Shareholder to sell up to an additional 750,000 Over-allotment Shares representing up to 12% of the aggregate number of Offer Shares available in the Offering (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions.*
Settlement and Delivery of the Offer Shares...	*The registration of the Shares on Investors' securities accounts in their brokerage houses or custodian banks shall be made through the NDS once the Shares have been admitted to trading on the WSE on or around 6 December 2010.* *Delivery of the Offer Shares will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of the NDS. Delivery of the Offer Shares is expected to take place on or about 6 December 2010 (the "Delivery Date"), barring unforeseen circumstances.*
Listing and Trading..	*The Shares are dematerialized and will be registered with the NDS. Application will be made to the Warsaw Stock Exchange for the admission of all of the Company's Shares, including the New Shares, for listing on the main market in the continuous trading system. Trading in Shares is expected to commence on or about 6 December 2010.*
Dividends..	*All Shares, including the Offer Shares, carry full dividend rights if and when declared, from the date the holder acquires such Shares.*
Voting Rights	*Each Share entitles its holder to one vote at the Issuer's General Meeting of Shareholders.*
Use of Proceeds	*The net proceeds from the sale of the New Shares will be used for financing of further expansion of the Group's business, including through execution of capital expenditure programme and acquisitions.* *To the extent the net proceeds from the Offering of the New Shares are not invested in any way described above they will otherwise be used for supporting the Group's working capital needs and optimizing cost and size of the Group's debt obligations, for other general corporate purposes in line with the Group's business strategy.*
Underwriting...	*The Issuer and the Selling Shareholder intend to enter on or*

	about 16 November 2010, into an underwriting agreement (the "Underwriting Agreement") in respect of the Offering with the Managers, in which the Underwriter will commit, on a best efforts basis, to procure subscribers for, or failing that, to subscribe in their own name and pay for, the Offer Shares at the Offer Price.
Lock-up	*The Issuer and the Principal Shareholders have agreed that, without the prior written consent of the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager, it or he will not, subject to certain exceptions, during the 180 days period after the Allotment Date (the "Lock-up Period") issue, offer, sell, contract to sell, pledge or otherwise transfer or dispose of, or announce the proposed sale of, any Shares or other equity securities or securities linked to the Issuer's share capital.*
Securities Code	*ISIN Code: NL0009508712*
Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager	*UniCredit Bank AG (London Branch)*
Offeror and listing agent	*UniCredit CAIB Poland S.A.*
Uderwriter	*UniCredit Bank Austria A.G.*
Managers	*UniCredit Bank AG (London Branch), UniCredit CAIB Poland S.A,, Concorde (Bermuda) Limited.*
Selling Restrictions	*The Offer Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions in reliance on Regulation S under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.* *In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Acton further selling restrictions please see: "Selling Restrictions".*

SUMMARY FINANCIAL AND OPERATING DATA

The summary financial data set forth below have been extracted from the audited Combined Financial Statements for the years ended 31 December 2007 and 2006, the audited Consolidated Financial Statements as at 31 December 2009, with comparable data for 2008 and from the unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2010 with comparable data for 2009.

The summary financial data should be read in conjunction with the Financial Statements and "Operating and Financial Review."

	For the periods ended 31 December			For the periods ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
			(In thousand EUR, except stated otherwise)		
Revenue	164,939	270,417	200,008	100,383	121,094
Cost of sales	(107,911)	(187,531)	(129,975)	(66,788)	(74,986)
Gross profit	**57,028**	**82,886**	**70,033**	**33,595**	**46,108**
Government grants recognised as income	284	389	339	28	251
Selling and distribution expenses	(36,279)	(20,309)	(18,687)	(9,702)	(9,912)
Administration expenses		(39,741)	(26,250)	(13,917)	(13,135)
Other expenses, net	-	(5,856)	(3,233)	(1,293)	(5,960)
Operating profit	**21,033**	**17,369**	**22,202**	**8,711**	**17,352**
Non-operating income/ (expenses) and other income/ (expenses)	134	-	-	-	-
Finance income	44	31	853	82	603
Finance costs	(6,776)	(15,053)	(14,186)	(7,612)	(6,828)
Foreign exchange loss, net	(587)	(15,856)	(948)	218	1,216
Profit before tax	**13,849**	**(13,509)**	**7,921**	**1,399**	**12,343**
Income tax (expense) / benefit	(1,547)	(2,489)	245	(1,143)	(636)
Profit for the year	**12,302**	**(15,998)**	**8,166**	**256**	**11,707**
Gain realised from acquisitions	-	23,366	-	-	-
Net profit	**12,302**	**7,368**	**8,166**	**256**	**11,707**
Other comprehensive income/(loss)	(2,764)	9,590	12,929	(1,828)	8,220
Total comprehensive income	**9,538**	**16,958**	**21,096**	**(1,572)**	**19,927**
Profit attributable to owners	12,282	6,227	8,109	(19)	11,544
Total comprehensive income/(loss) attributable to owners of the Company	**9,518**	**17,511**	18,216	(1,420)	18,204
Earnings per share—basic and diluted, EUR cents	-	43.93	32.44	(0.08)	46,18
Weighted average common shares outstanding, in thousand	-	14,173	25,000	25,000	25,000
Adjusted EBITDA	26.762	29,590	32,460	13,259	21,925
Adjusted EBITDA margin, %	16.2%	10.9%	16.2%	13.2%	18.1%
Cash flows from operating activities	16,362	3,492	8,724	4,566	6,347
Cash used in investing activities	(31,746)	(32,781)	(2,045)	(812)	(2,514)
Cash provided by / (used in) financing activities	39,853	8,062	(2,918)	(5,198)	(3,697)

Calculation of Adjusted EBITDA

This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event.

	For the periods ended 31 December			For the periods ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
			(In thousand EUR, except stated otherwise)		
Operating profit	**21,033**	**17,369**	**22,202**	**8,711**	**17,352**
Depreciation and amortisation	5,729	9,665	7,665	3,884	4,492
Non-reccuring consulting and legal fees	-	361	1,006	697	-
Loss/(gain) from disposals and impairments of non-current assets	-	2,195	1,587	(33)	82
Adjusted EBITDA	**26,762**	**29,590**	**32,460**	**13,259**	**21,925**

	31 December			30 June
	2007	**2008**	**2009**	**2010**
Balance Sheet Data:				
Total cash and cash equivalents	28,006	3,181	6,676	8,010
Total assets	136,764	173,636	184,048	238,901
Total owner's equity	28,019	20,014	37,562	69,203
Non-controlling interests	1,187	9,100	12,648	13,274
Total loans and borrowings	74,552	98,515	92,635	103,672
Total liabilities	107,558	144,522	133,838	169,698

RISK FACTORS

Prospective investors in the Offer Shares should carefully consider the following risks and uncertainties, as well as other information contained in this Prospectus before deciding to invest in any of the Offer Shares. The Issuer's business, financial condition and results of operations have been, and could be, materially adversely affected by the following risks. If any of the following risks actually occurs, the value and trading price of the Shares could decline and investors could lose all or part of their investment. Described below are the risks and uncertainties the Issuer believes are material, but these risks and uncertainties may not be the only ones faced by the Issuer.

Risks Relating to the Group's Business and Industry

The Group's business could be adversely affected if the special VAT regime and state support to agricultural producers is cancelled or modified

Ukrainian agricultural producers, including four companies of the Group, benefit from a special regime of taxation. According to this special regime, they are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20%) and the VAT paid on items purchased for their operational needs. Such subsidies may be used by agricultural companies for their business purposes. This VAT benefit was received by the Group in 2008 and 2009 in the amount of EUR 389 thousand and EUR 339 thousand, respectively, and continues to be available to the Group. Currently, the VAT exemption is in force for an indefinite period. However, if it is cancelled or modified, it may negatively affect the Group's results of operations.

Furthermore, since the Group produces approximately 1% of the raw milk required for its dairy operations, the rest of the raw milk required for its operations is purchased from third party suppliers. See - "*The Group may not be able to source sufficient quantities of raw materials of an acceptable quality*". Ukrainian dairy producers, including the milk processing companies of the Group, should use the VAT that they charge on their dairy products solely to pay subsidies to raw milk producers instead of remitting such amounts to the state budget. The subsidy is calculated as the difference between the VAT that dairy producers charge on their dairy products and the VAT that they pay on raw milk purchased from the raw milk producers, and it should be paid by the dairy producers to special accounts opened by the raw milk suppliers. This VAT benefit has been extended to Ukrainian producers of raw milk since 1998, and continues to be available to them. However, if the relevant VAT benefit is cancelled or modified, it may result in the increase of the purchase price of raw milk, which could materially adversely affect the Group, its business, results of operations and financial condition and prospects.

In addition to the VAT benefits discussed above, Ukrainian producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, in accordance to the Law of Ukraine "On the Fixed Agricultural Tax", dated 17 December 1998, as amended ("Law on Fixed Agricultural Tax"), agricultural companies register as payers of fixed agricultural tax ("FAT"), provided that sales of agricultural goods of their own production account for more than 75% of their gross revenue. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of the deemed value (determined as of 1 July 1995) of land plots used for agricultural production that are leased or owned by a taxpayer, at the rate of 0.15%. One of the Group companies, Agrosvit is registered as FAT payer. In each year of 2007, 2008 and 2009, Agrosvit paid FAT in an aggregate amount of approximately EUR 1.0 thousand. According to the amendments to the Law on Fixed Agricultural Tax as of 2008, the FAT regime was extended for an unlimited period, however there is no guarantee that the FAT regime will not be discontinued in the future, which could have an adverse effect on the Group's business, results of operations, and financial condition.

The Group's exports of cheese to Russia may be adversely affected

In 2009, 27% of the Group's revenues were generated from exports of cheese from Ukraine to Russia. 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. During the ban several Ukrainian dairy producers were inspected by the relevant Russian veterinary and phytosanitary authorities and were granted special permits to export their dairy products to the Russian Federation. Although the ban was lifted in July 2010, currently only those Ukrainian dairy producers which passed the attestation with the Russian Veterinary and Phytosanitary Authority are allowed to export their products to the Russian Federation. The Group obtained the necessary permits promptly, and its exports to Russia were interrupted only for the period of three months in 2006. Upon the regular attestation with the Russian veterinary and Phytosanitary Authority, in October 2010 the export from one of the Ukrainian dairy producers not related to the Group was suspended. There can be no assurance that Russia will not apply such or similar measures in the future. If applied, such measures could have a material adverse impact on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Any significant increase in the prices of the raw materials could adversely affect the Group's profit margins and / or make its products less appealing to consumers

Purchases of raw milk account for over 60% of the Group's cost of sales. The increase in raw materials costs translates into higher prices of final products. That could result in lower demand for the Group's products. The majority inputs are sourced locally within Ukraine and Russia, however the prices for these items are influenced by both domestic and international trends and factors such as cyclicality, and other market factors, including seasonal declines in the availability of raw milk, freight costs, weather conditions and practices of brokers. In line with industry practice in Ukraine and Russia, the Group does not generally enter into long-term contracts for the supply of raw materials and does not hedge against increases in the price of raw materials. Accordingly, the Group remains subject to price fluctuations and shortages which are beyond its control. The price of raw milk could also be affected by a change in government policies. See: - "*The Group's business could be adversely affected if the special VAT regime and state support to agricultural producers is cancelled or modified"*.

Due to the highly fragmented nature of dairy farming, to date the Group has not experienced any coordinated efforts amongst its suppliers aimed at setting uniform prices for their products. However, it is possible that suppliers will adopt such practices in the future and this may lead to an increase in the prices of such raw materials.

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. Therefore, there may be periods when increases in raw materials costs are not recoverable by the Group. 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.

Accordingly, for these reasons, any significant increase in the price of raw materials could materially adversely affect the Group's business, prospects, results of operations or financial condition or the price of the Shares. See - *"Business — Supply of Raw Materials"*.

The Group may not be able to source sufficient quantities of raw milk of acceptable quality

Raw milk is a key input in the Company's production process and ensuring a sufficient supply of raw milk is crucial for the Group's business. The Group purchases substantially all raw milk from third party suppliers.

The Group purchases raw milk from dairy farms as well as individual rural households. In 2009, approximately 45% of the supply came from individual households and 55% from dairy farms and milk traders. The Group has sought to establish close long-term relationships with its key suppliers to secure volumes of raw milk. Furthermore, the Group has built an extensive network of milk collection points across Ukraine to have direct access to individual suppliers. Notwithstanding the above, the Group is developing its own milk farming business, and currently owns four dairy farms in Ukraine breeding more than 1,000 milk cows, with the total leased land area of approximately 9,500 hectares (including land lease agreements in process of state registration).

The production of raw milk in Ukraine and Russia 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.

While the Group plans to expand its farming business, it remains and will remain largely dependent on third party suppliers. If, due to economic or other considerations, the farmers supplying the Group with raw milk decide not to produce raw milk in the future, to reduce the volumes produced or to sell to other parties rather than to the Group, the Group could face difficulties in sourcing alternative supplies of acceptable quality on a timely basis and on commercially acceptable terms or at all.

In the event that the Group is unable to source sufficient quantities of raw milk of an appropriate quality on a timely basis, it could be unable to satisfy the demand for its products and maximize its sales. This could materially adversely affect the Group's business, results of operations and financial condition.

The Group may be unable to obtain VAT refund on the exports of its goods

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. The complicated process of tax inspections and their contradictory rules create serious barriers for administration of taxes and such refunds. Due to a high budget deficit in Ukraine, many taxpayers entitled to VAT refund may not receive such refund in practice or may not be able to offset VAT against other taxes and duties (mandatory payments). In its financial accounting the Group applies a 30% provision for VAT receivables on exports to reflect risks associated with VAT refunds. As of 30 June 2010, the amount of exports VAT refund owed to the Group by the government was EUR 23.0 million (net of provision of EUR 8.8 million). During the period from 1 July 2010, the Group has received the compensation of VAT in the total amount of EUR 13.3 million, including EUR 4.0 million in cash and EUR 9.3 million in VAT bonds. The VAT bonds were sold by the Group at an 18.3% discount, which compares favourably to the 30% provision applied. 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.

The Group has been, and will continue to be, controlled by two majority shareholders, and depends on the services of the Chief Executive Officer and Chief Operating Officer

Mr. Anatoliy Yurkevych, the Issuer's Chairman of the Board of Directors, together with his mother, Ms. Olga Yurkevych, the Issuer's Chief Operating Officer, beneficially own 94.0% of the Issuer's shares. Following the Offering, the Yurkevych family will continue to own from 72.8% to 75.2% of the Issuer's issued share capital, depending of the exercise of the Over-Allotment Option. Save for those matters which require the unanimous consent of all shareholders, the Yurkevych family have the ability to control any action requiring shareholder approval, including electing the majority of the Issuer's Board of Directors and determining the outcome of most corporate matters without recourse to the Issuer's minority shareholders. For example, the Yurkevych family could cause the Group to pursue acquisitions and other transactions, even though such transactions may involve higher risk for the Group. Moreover, the interests of the Yurkevych family and other shareholders and members of the Group's management may, in some circumstances, conflict with the interests of the holders of the Offer Shares. For example, the Issuer's subsidiaries have engaged in and continue to engage in insignificant transactions with related parties, including parties that are controlled by Mr. Yurkevych. Any such conflicts of interest could have an adverse effect on the Group's business, results of operations, financial condition and prospects. See – "*Management and Corporate Governance*".

In addition, the Group believes its continued success depends to a significant extent on Mr. Rekov's, the Issuer's Chief Executive Officer and the beneficial owner of 6% of the Issuer's shares, and Ms. Yurkevych's industry experience, expertise, and efforts. The Group does not maintain a key person life insurance policy on Mr. Rekov or Ms. Yurkevych. Although the Group is working on forming a strong management team not related to the beneficial shareholders of the Group, the loss of Mr. Rekov's and Ms. Yurkevych's services could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See - "*Management and Corporate Governance*".

Any contamination of the Group's products could adversely affect the Group's reputation, results of operations and financial condition

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. A large number of the Group's products must be stored under certain conditions in order to retain their flavour and nutritional value and to avoid contamination or deterioration. Depending upon the specific product, a risk of contamination or deterioration exists at different stages of the production cycle, including the purchase and delivery of raw materials such as milk, the processing and packaging of products, the stocking and delivery of finished products to distributors and food retailers, and the storing and shelving of finished products at the final point of sale.

The Group has established a quality assurance department and rigorous quality control systems and testing at its production facilities for which it has achieved various international quality certificates. The Group believes that the emphasis on quality is a key driver of its sales and underpins the Group's brand image. Accordingly, in the event that the quality of the Group's products is compromised or is alleged to have been compromised, this could result in decreases in sales of the Group's products, claims against the Group, the loss of its international certifications and an adverse impact on the Group's reputation and brand, which could have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

The Group believes it has implemented measures to minimize the risk of contamination and to maintain its quality certifications, in particular through its policies on hygiene and testing, its use of highly automated machinery, its pursuit of internationally recognized quality standards and its close interaction with its raw material suppliers. There can however, be no assurance that these or any other of the Group's production, testing or distribution measures have or can entirely eliminate the risk of contamination or deterioration.

If the demand for the Group's products increases significantly in the future, it may be unable to obtain sufficient supplies of raw materials from its existing suppliers to meet such increased requirements. In such circumstances, the Group may need to adapt the formulations of its products to use alternative ingredients, for example, by substituting raw milk with powdered milk or sourcing raw materials from new suppliers whose quality controls may be less stringent than those employed by the Group's existing suppliers. If any such adaptations or alternative supply sources result in an actual or perceived decline in the quality of the Group's products, this could adversely impact the Group's reputation, product sales and market share, thereby having a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares. See -"*The Group's insurance coverage may be inadequate*".

Certain of the Group's credit facilities are repayable on demand and/or subject to certain covenants and restrictions

The Group's operations are partially financed through short and medium term loans from several financial institutions. As of 30 June 2010, the Group had total borrowings of approximately EUR 103.7 million. To date, the Group has serviced such borrowings in accordance with their respective loan repayment schedules. However, all of the Group's short-term loan facilities may be repayable on demand in case of breach of the contract and there can be no guarantee that the Group will not be required to repay such facilities in the future with limited advance notice and when not provided for in the Group's budgets. Any such failure may lead to the default under the Group's credit facilities and could result in the Group's creditors proceedings against the collateral securing its indebtedness. Any such action could materially and adversely affect the Group's business, results of operations, financial condition and prospects. If the Group's indebtedness were to be accelerated, the Group might not have sufficient funds to satisfy such obligations, and even if it did meet the requirement, to make such payments could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's existing financing arrangements are subject to certain covenants and restrictions which could limit the Group's ability to obtain future financing and/or limit the terms on which such financing may be available. For example, the Group's loan arrangements with its lenders contain certain covenants which limit the Group's ability to obtain financing from other lenders and a negative pledge covenant restricting the ability of the Group to provide security to other potential lenders, which in turn may make financing from such sources unavailable. Accordingly, there can be no assurance that, even if the Group is able to identify sources of financing, including in the form of debt and equity financing on commercially acceptable terms, it will be able to obtain approvals from its existing lenders to enter into such arrangements. Any failure to obtain or difficulty or delay in obtaining requisite financing could result in delays to or cancellation of the Group's expansion plans or restrict normal operations in ways which could have a material adverse effect on the Group's business, results of operations and financial condition. Any breach of the Group of the terms or covenants of its indebtedness could cause default under the terms of the Group's indebtedness, causing some or all of the Group's indebtedness to become immediately due or repayable. Such default could also result in the Group's creditors proceeding against the collateral securing its indebtedness. Any such action could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

Under the terms of certain of the Group's loan agreements, the Group must maintain minimum levels of net worth and comply with, among other things, a fixed charge coverage ratio and a leverage ratio. The Group's ability to meet the financial ratios under its medium term loans is affected, in part, by events beyond its control, and the Group may not be able to satisfy those ratios and tests. As a result, the Group may not be able to incur additional indebtedness or enter into additional loan agreements and this may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to achieve, maintain or increase its market share

Any failure by the Group to anticipate, identify or react to changes in consumer tastes and preferences 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. The success of new products introduced by the Group depends on the Group's ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences and there can be no assurance that the Group will be able to gain market acceptance of products introduced by it in the future. Any such failure could have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

The Group's key brands or reputation could be damaged in the future

The Group's business relies on its brand reputation. The Group believes that maintaining and enhancing the Group's brands, which will depend on the success of the Group's marketing efforts and ability to provide its customers with high-quality products, is important to retaining its market share and market penetration and growing the business in the future. The Group's ability to maintain and enhance its brand will depend largely on its ability to continue to provide high quality products. In the event that the Group's brand or reputation is damaged, for example as a result of product liability claims, negative press coverage or general negative perceptions about the nutritional value and use of additives in packaged products, this could adversely impact the Group's reputation, sales and profitability. In the event that the Group's brand or reputation is adversely affected, this could have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

The Group may not be able to successfully implement its expansion strategy and even if such strategy is successful, the Group may be unable to meet the demand for its products in the future

The Group has made significant capital expenditure investments in order to expand its production capacity to meet anticipated increased demand as a result of expected growth in the Group's key product segments. The Group intends to manage this growth by expanding its product portfolio and through marketing efforts. There can, however, be no assurance that the Group will be successful in increasing the demand for its products and a failure to do so may result in the Group having unutilized capacity at its plants or not being able to recover its investments made to date. In such circumstances, the Group may also fail to recover production, distribution, promotional and marketing expenses, as well as administrative costs incurred in such expansion initiatives. Any such failures could have a material adverse effect on the Group's business, results of operations and financial condition.

Conversely, even if the Group is able to implement its expansion strategy successfully, if any future growth in demand for the Group's products outstrips the production capacity resulting from such expansion, the Group could be unable to successfully exploit this growth, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to the risks of international expansion

An element of the Group's expansion strategy is to increase its penetration of its existing exports markets and to enter new geographical markets, whether by exporting products or, selectively, setting up local production capabilities in the relevant markets. However, such an expansion of the Group's business may be adversely affected by political and economic factors and other barriers to entry including legal and regulatory requirements and language and cultural differences. Accordingly, while the Group will seek to leverage off its existing exports expertise, the Group's ability to manage any expansion beyond its home markets will depend on the Group's ability to operate in new markets, to utilise effective operational, financial and management systems and to employ suitable qualified personnel. Any failure to do so could have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

The Group is dependent on third party suppliers of its equipment and packaging materials

The Group is dependent on the equipment and packaging manufacturers which in some cases are the Group's sole source of supply. In particular, a significant part of the packaging equipment at Ostankino has been supplied by Tetra Pak, and Ostankino is also dependent on Tetra Pak for supply of packaging materials. In the event that Ostankino is unable to obtain the required volumes of such packaging on a timely basis, this could interrupt production of Ostankino's products and have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

Ostankino is also dependent on Tetra Pak for engineering and servicing support to maintain the Tetra Pak packaging equipment. If there is any delay in the provision of equipment maintenance or support, it could interrupt Ostankino's production process, which could have a material adverse effect on the Group's business, prospects, results of operations or financial condition or the price of the Shares.

The Group operates in a competitive environment and may be subject to higher competition in the future

There can be no assurance that the Group will be able to compete effectively against current and future competitors, in particular those with greater financial or operational resources than the Group. Although the Group believes that there are certain barriers to entry in its key markets, any new entrants to or other changes in the competitive environment may result in price reductions, reduced margins or loss of market share, any of which could materially adversely affect the Group's profit margins. Current and potential competitors may increase their advertising expenditures and promotional activities and/or engage in irrational or predatory pricing behaviour in an effort to gain market share. There can be no assurance that current or potential competitors will not provide products comparable or superior to those provided by the Group, adapt more quickly to the evolving industry trends or changing market requirements or price at level below those of the Group's competing products, any of which could result in the Group losing its market share.

It is also possible that there will be significant consolidation in the dairy industry; alliances may develop among competitors and these alliances may rapidly acquire significant market share. For example, in 2010 Danone merged with Unimilk, a CIS producer of dairy products. In addition, any concentration within the currently fragmented retail sector or moves by major retailers to centralized buying/distribution could increase their negotiation power and enable them to exert downward pricing pressure on the Group. Further, such larger retailers could launch own-branded products and prioritize those products in terms of product positioning and promotion, thereby increasing competition in the Group's key product segments.

If competitive pressures increase and the Group's share of the markets for its key products do not grow at the rate anticipated by the Group, there may be insufficient demand to offset the increase in supply of products to the market by the Group's current or future competitors. The inability of the Group to compete effectively could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares. See also - "*The Group may not be able to obtain, maintain or increase its market share for its products*".

As the Group is one of one of the leading milk processors in Ukraine, it may face claims that it has abused its dominant position

The Group is one of the largest milk processors in Ukraine and is a key collector of raw milk in regions of Ukraine. As a consequence, the Group was and may in the future be alleged to abuse its dominant position in these regions. While the fines imposed on the Group in the past in this respect were not significant, such allegations could affect the reputation of the Group, result in legal proceedings under competition legislation and, if any such proceedings were not successfully defended, could result in the imposition of fines or other penalties and restrictions on the conduct of the Group's future business, which could have an adverse effect on the Group's business, prospects, results of operations financial condition or the price of the Shares.

The Group's operations may be subject to business interruption

The success of the Group is dependent upon the ongoing, efficient operations of its systems and infrastructure. Inherent risks to these operations include natural disasters, outbreaks of disease in livestock or crops, adverse weather conditions, failure of critical machinery, power, water supply or computer systems. While the Group has put in place protective measures in an effort to minimize such risks, there can be no assurance that the Group's business operations would not be interrupted or materially affected should any of these risks materialize. Such interruptions could result in interruptions to or cessation of production and distribution of the Group's products or adversely impact the quality of the Group's products.

Although the Group has more than one specialized production facility for certain of its products and is able to switch production to another facility if it experiences difficulties with production at one of its plants if the Group was required to redistribute its production operations between plants business interruption could result and this could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares. See - "*The Group may not be able to obtain, maintain or increase its market share for its products*".

The loss of key customers could have an adverse impact on the Group's financial results

A significant portion of the Group's revenues is derived from a limited number of key customers. If one or more of these key customers was to cease purchasing products from the Group and divert its business to one of the Group's competitors, or demand more favourable terms from the Group, the loss of such business or revised terms could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Outbreaks of diseases could affect livestock and crops in Ukraine and Russia

All raw milk used by the Group is produced in Ukraine and Russia. In the event that either country experiences an outbreak of livestock or crops diseases, a drought or other disaster affecting the dairy herds could lead to significant shortfalls in the supplies of raw milk. If such a shortfall were to occur, the Group may not be able to identify alternative supplies either on commercially acceptable terms or at all, which could materially adversely affect the Group's business, results of operation and financial condition.

The Group is dependent on qualified personnel

The Group's sales, business, financial condition and results of operations could be materially and adversely affected if the Group is unsuccessful in attracting, retaining and motivating qualified employees or replacing them with equally qualified personnel, including managerial, dairy, veterinarian and sales and marketing personnel. The Group is not insured against risks of loss or removal of the key managers. Competition in Ukraine for qualified personnel is intense. Although the Group has established programmes for attracting and retaining qualified personnel, the Group cannot provide any assurance that it will be successful in human relations efforts to meet the needs of its planned expansion. See - "*Business — Employees*".

Furthermore, the Group has not entered into any non-compete agreements with any of its executive officers (and such agreements might in any event be unenforceable in Ukraine). Ukrainian law requires companies to enter into formal employment contracts with their managing directors. Although the Group intends to comply with such requirement, as of the date of this Prospectus, the Group has not entered into employment contracts with any such managing directors of its Ukrainian subsidiaries. In addition, the absence of formal written contracts with members of senior management could undermine the Group's ability to retain such personnel and, conversely, could mean that under Ukraine's labour laws, the Group might have difficulties in terminating the contracts of such personnel unless they agree to termination.

Any of the foregoing factors could materially and adversely affect the Group's business, prospects, results of operations, financial condition or the price of the Shares. See ''*Business—Employees*''.

The Group's business is working capital intensive and the Group's ability to finance its business depends on generating sufficient capital to support its operations

The Group requires substantial capital to fund its working capital and other cash needs. The Group's ability to generate cash to a certain extent depends on competitive, general economic, financial and other factors that are beyond the Group's control, including the availability of credit. The Group's working capital is sufficient for the Group's present requirements in the period of twelve months from the date of the Prospectus, however there can be no assurance that in the future, the Group will be able to obtain sufficient loan or equity capital and/or generate sufficient operating cash flow to support its operations. Consequently, the Group may experience periodic cash demands that it is unable to fully satisfy. In addition, certain of the Group's commercial and equipment financing contracts contain retention of title provisions. In the event that the Group is unable to satisfy its payment obligations, including those under these contracts, this could have a material adverse effect on its business, results of operations and financial condition.

The Group's trademarks and other intellectual property rights may not adequately protect its products and brands and it may face challenges to its intellectual property rights and applications and claims that it has infringed the intellectual property rights of others

Any failure of the Group to retain control over and protect its trademarks and other intellectual property, such as trade secrets, may adversely affect its business. The Group's competitive position depends, inter alia, upon its ability to continue to utilize the trademarks used on its products in the jurisdictions where the products are sold, and to protect those trademarks from infringement. The Group has obtained or applied for registration of its following key trademarks in jurisdictions that, in the Group's opinion, are key for its business: Dobryna, Kolyada, Ostanskinskaya and King Artur. Accordingly, in the event that the Group's current trademarks are amended, revoked or expired, or if any of its applications for the registration of its trademarks are unsuccessful, delayed or granted subject to limitations, this could significantly affect the Group's ability to compete in the relevant markets, which could have a material adverse effect on the Group's business, results of operations and financial condition. See - "*The Group is currently and may in the future be subject to litigation*".

The legal system in Ukraine and Russian generally offers a lower level of intellectual property rights protection and enforcement than the legal systems of many other countries in Europe and in North America. Steps taken to protect the Group's trademarks and other intellectual property rights may not be sufficient and third parties may infringe or challenge such rights, and if the Group is unable to protect such intellectual property rights against infringement, it could have a material adverse effect on its business, results of operations, financial condition and prospects.

Furthermore, the Group has not properly formalized all arrangements with retail chains for which it produces products under private label arrangements. See - "*Business – Brand overview*". If the failure to properly formalize such arrangements leads to claims relating to infringement of the intellectual property rights of the relevant retail chains, this could significantly affect the Group's ability to compete, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to 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. While essentially all Group's revenue and costs are incurred in local currencies, a significant percentage of its borrowings (63% as of 31 December 2009) is denominated in currencies other than Hryvnia or Rouble, principally in US Dollars. The Group does not hedge its currency or interest rate exposure. An unfavourable shift in exchange rates or interest rates could have a negative impact on the Group's financial position. See - "*Operating and Financial Review - Currency Exchange Rates*".

Inflation could increase the Group's costs and adversely affect its margins

As a substantial portion of the Group's expenses (including operating costs and capital expenditures) is denominated in Hryvnia and Rubles, the relative movement of inflation and exchange rates may significantly affect the Group's results of operations. The effects of inflation could cause some of the Group's costs to rise. The Russian and Ukrainian economies have been characterized by high rates of inflation. According to Derzhkomstat, the inflation rate (CPI) in Ukraine was 16.6% in 2007, 22.3% in 2008 and 12.3% in 2009, respectively, and according to Rosstat, the inflation rate (CPI) in the Russian Federation was 11.9% in 2007, 13.3% in 2008 and 8.8% in 2009, respectively.

As the Group tends to experience inflation-driven increases in certain of its costs, such as salaries and locally purchased materials, that are sensitive to rises in the general price levels in Russia and Ukraine, the Group's costs may rise. In this situation, due to competitive pressures, the Group may not be able to raise the prices it charges on its products sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine could increase the Group's costs and have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

If in the future the Group extends credit to more customers or for a higher share of its sales in response to competitive pressures, it will be subject to greater credit risk

The Group's sales are paid for by customers in advance or shortly after delivery. The Group typically only extends credit to its larger retail and business customers, who are invoiced and pay in arrears. There can be no assurance that competitors of the Group will not offer to extend credit to other retailers and that the Group will not respond by also offering credit terms to these customers. If the Group increases its sales on credit, its cash flows may be adversely affected and it could become subject to a correspondingly greater risk of default by its customers, which could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

The Group may be in the future subject to litigation which could have a material adverse effect on the Group's business

Currently the Group is subject to a number of claims relating to its activities and business, these claims and disputes do not have material adverse effect on the Group's business, however no assurances can be given that in the future the Group will be subject to future claims or disputes, and an adverse decision or an extended or high profile dispute could have a material adverse effect on the Group's business, results of operations and financial condition. See - "*Business - Legal Proceedings*".

The Group may be subject to claims and liabilities under environmental, health, safety, sanitary, veterinary and other laws and regulations which could be significant

The Group's operations are subject to various environmental, health, safety, sanitary, veterinary and other laws and regulations, including those governing fire and labour safety, sanitary compliance, air emissions, solid waste and wastewater discharges and the use, storage, treatment and disposal of hazardous materials, such as disinfectants. The requirements of these laws are subject to amendment, imposition of new or additional requirements and changing interpretations by governmental agencies or courts. In addition, the Group anticipates increased regulation by various governmental agencies concerning food safety. Furthermore, business operations currently conducted by the Group or previously conducted by others at properties owned or operated by the Group, and the disposal of waste at third party sites expose the Group to the risk of claims under environmental, health and safety laws and regulations.

The Group could incur material costs or liabilities in connection with claims related to any of the foregoing. The discovery of presently unknown environmental conditions, changes in environmental, health, safety and other laws and regulations, enforcement of existing or new laws and regulations, the Group's failure to successfully manage relations with local authorities and other unanticipated events could give rise to expenditures and liabilities, including the suspension, or the decommission of work and usage of the legal entity or its equipment and buildings, fines and/or penalties which could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation

The Group's business depends on the continuing validity of several licences, the issuance of new licences and/or permits and its compliance with the terms of its licences and/or permits and/or relevant legislation. In particular, the Group's Ukrainian dairy operations depend on attestation certifications for the production of dairy products. The attestation certificates of some of the dairy plants of the Group, including Sumy Dairy Plant and Mena Cheese, have expired. While the relevant companies have applied for the new attestation certificates, and received confirmation that the new certificates will be issued in due time, the applicable Ukrainian legislation prohibits the production of milk and dairy products without a valid attestation certificate. Failure of the state authorities to issue new attestation certificates to the relevant Group companies could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Ostankino holds a number of licenses, including for the operation of fire-hazardous and chemical hazardous production facilities and handling causative agents of infectious diseases and is required to comply with the terms of such licences. As of the date of this Prospectus, Ostankino is in breach of some of the licensing terms. A breach by a licensee of the licensing terms may lead to the suspension of the relevant license for up to 90 days and during the period of suspension the licensee will be prohibited from conducting the licensed activity. If the licences fail to rectify the breach of the licensing terms, the relevant license may be terminated by court pursuant to the request the licensing authority. In addition, if the licensee continues to perform a licensed activity without the appropriate license, it may be subject to fines and, ultimately, liquidation under the court decision.

In addition, Ukrainian companies of the Group, as operators of food production facilities, are required to obtain exploitation permits in respect of their facilities for the production of milk and dairy products. Ukrainian state authorities are authorised to suspend or revoke an exploitation permit if a particular facility does not comply with applicable sanitary and veterinary regulations. Not all Group companies engaged in the dairy production have obtained the requisite exploitation permits either from the sanitary and/or from the veterinary authorities. Three farms of the Group (Krasnosilske Moloko, Iskra, and Agrosvit), and Kholodokombinat No. 4 failed to obtained veterinary exploitation permits, and Laktis failed to obtain the sanitary exploitation permit. In the absence of the valid permits, the relevant Group companies may be prevented from operating their facilities, and, as a strict legal matter, without such permits, the Group will not be permitted to produce, process, store or transport its dairy products. Additionally, Iskra is engaged in the pedigree breeding without the necessary exploitation permit from the veterinary authorities, which is prohibited by law.

Furthermore, under Ukrainian law, the production of new food products, implementation of new technological process of their production, is allowed only after obtaining a positive conclusion from the sanitary and epidemiological supervision authorities, and implementation of new or refurbished production or other facilities, or the lease of any premises, without obtaining the permits from the fire safety supervision authorities. Certain Group companies have not obtained relevant permits. Pursuant to Ukrainian law, the failure to obtain any such permits may lead to: (i) the suspension, or the closure of operations of such companies or their equipment and buildings; and/or (ii) the relevant authority confiscating produced goods, equipment and raw materials of such companies.

The Group must also obtain approval for all newly introduced technological processes from the Agrarian Ministry of Ukraine. As of the date of this Prospectus, there are no regulations or procedures in place enabling companies to obtain approval for newly introduced technological processes and, accordingly, such approvals are not currently being issued. The Group plans to obtain all necessary approvals as soon as implementing regulations and procedures become available.

Furthermore, some of the Ukrainian Group companies may be subject to fines, suspension or restriction of the activities for the failure to comply with the environmental regulations, in particular, (i) for generation and placement of waste without permits and approved limits, or without necessary agreements on waste transfer and disposal, (ii) for special water usage without obtaining necessary permits or for other violations of legislation on usage of water resources, (iii) for usage of water from artesian wells without obtaining permits for special use of subsoil and (iv) for emission of contaminative substances into atmospheric air by the stationary sources.

Although the Group intends to comply with the environmental regulations and to obtain all necessary permits, several Group companies are currently in litigation proceedings with local environmental authorities regarding to their non-compliance with environmental laws and regulations and/or failure to obtain necessary permits.

The majority of Ukrainian companies of the Group have failed to comply with the requirements of legislation on the protection of labor, including conducting of annual medical examinations of employees and to obtaining permits for performing works of increased danger and operate equipment of increased danger. Such failure may lead to a fine in the amount of 5% of the monthly salary fund of the said Group's company. Additionally, in the event of the failure to obtain permits for performing works of increased danger and operate equipment of increased danger the local executive authority, upon request from labor protection authority, may cancel the state registration of the said company, provided that the company has failed to cure the violation within the period of one month.

Regulatory authorities exercise considerable discretion in the timing of licence and permit issuance and renewal and in the monitoring of compliance with the terms of licences and permits. In certain circumstances, state authorities in both Ukraine and Russia may seek to interfere with the issuance of licences and permits, and the licensing and permitting process may also be influenced by outside commentary, political pressure and other non-legal factors. The Group has not had any material fines imposed on it and has not had the operation of any of its companies suspended as the result of non-compliance with all applicable regulatory requirements. Moreover the Group intends to obtain all the necessary licenses, permits, certificates and approvals in the near future. However, there is a risk that licences or permits needed for the Group's business may not be issued or renewed, may not be issued or renewed in a timely fashion or may be subject to onerous conditions. If the Group is unable to obtain, maintain or renew necessary licences or permits, its business, prospects, results of operations, financial condition or the price of the Shares could be materially adversely affected. See – "*Business - Facilities and Properties— Licences and Permits"*.

The Group has engaged and may continue to engage in related party transactions

The Group has engaged to an insignificant extent in transactions with other companies controlled by the Shareholders. While the Group believes that such related party transactions have been on arm's length terms, there has been no independent assessment of the terms of such transactions. If any related party transactions were to transfer excessive benefits from one or more of the members of the Group to related parties that do not form part of the Group, they could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares. See - "*Related Party Transactions*".

The Group is not able to exercise voting rights in respect of all shares it holds in Ostankino as a result of violating of Russian corporate laws

Under Russian corporate law, a shareholder that has accumulated (either directly or together with its affiliates) more than a 30%, 50% or 75% stake in a Russian open joint stock company is generally required to make an offer for the remaining shares at a price determined in accordance with Russian law. Such offer must be made within 35 days of the acquisition of the shares that has triggered the tender offer requirement. When the Group acquired a 75.23% stake in Ostankino in 2008, it failed to comply with this requirement and no offer was made to the remaining shareholders following the acquisition. As a result of this breach, the Group is currently able to exercise its voting rights in respect of 30% of its shares in Ostankino and remaining shares held by the Group do not count for voting and quorum purposes. Therefore, the Group cannot exercise control over Ostankino in respect of matters which require a three-quarter majority vote at the general shareholders' meeting (such as amendment of the charter, corporate reorganization, liquidation and approval of certain major and interested-party transactions).

As of the date of this Prospectus, the Group is in the process of buying out the shares in Ostankino from the minority shareholders and has increased its stake in Ostankino to 85.78%. While the Group will not be able to exercise voting rights in respect of any of such additionally acquired shares, such minority shares will be excluded from voting and, consequently, the Group will be able to approve decisions requiring a three quarter majority of shareholders present at the meeting with its 30% stake. Pursuant to the agreement with Catapel Ltd. on acquisition of 17.8% shares in Ostankino, the Group plans to reach a 93.78% shareholding in Ostankino by 31 March 2011 (See "*Material Contracts – Acquisitions of Shares of Ostankino*"). However, there can be no assurance that the Group will succeed in buying out the relevant shares to have the required majority or within the timeframe mentioned above. Failure of the Group to secure the necessary majority at the general shareholders' meetings of Ostankino could have a material adverse effect on the Group's business, prospectus, results of operations, financial condition or the price of the Shares.

The Group's insurance coverage may be inadequate

The Group's insurance coverage may not adequately protect it from the risks associated with its business. The insurance industry is not yet well developed in Ukraine and Russia; several forms of insurance protection common in more economically developed countries are not yet available in Ukraine and Russia on comparable terms or not reasonably priced, including coverage for business interruption and product liability insurance. The Group insures its principal assets against risk of loss or damage caused by, for example, fire, lightning, explosions, arson, natural disasters, water damage, burglary and robbery. As required by law, the Group maintains statutory insurance for employees of departmental and rural fire services and members of volunteer fire brigades, personal insurance for drivers against accidents on transport, civil liability insurance for owners of transport, civil liability insurance for enterprises with respect to damage which may be caused by fire and accidents in high-risk operations, including inflammable objects and objects where business activity can cause accidents of an ecological and sanitary-epidemiological nature, as well as insurance for carriers of dangerous cargos for events occurring in the course of transportation. However, the Group does not have full coverage against loss of, or damage to, some of its plant and equipment or losses arising from the interruption of its business, nor does it maintain mandatory product liability insurance with respect to products of animal origin, or "key man" insurance. In the event that a product liability or other claim is brought against the Group which is not covered by the insurance policies described above, it could have a material adverse effect on the Group's business, results of operations and financial condition. In addition, there is no guarantee that the Group will be able to obtain insurance on economically viable terms. If the Group is unable to obtain insurance coverage in respect of particular risks, it will be forced to cover any losses or third-party claims out of its own funds. The Group does not currently maintain separate funds or otherwise set aside reserves to cover such losses or third-party claims. If the Group were to suffer a loss that is not adequately covered by insurance, its business, prospects, results of operations or financial condition or the price of the Shares could be materially adversely affected. See - "*Business — Insurance*".

The Group could face legal consequences for violations of certain Ukrainian and corporate laws and regulations

Corporate laws and regulations in Ukraine and Russia largely did not exist until the last decade of the 20th century when a transition to a market economy began for both countries. Since then, corporate laws and regulations in Ukraine and Russia have developed significantly. However, due to frequent material changes of the economic and political environment, the structure of government, and the legislative authorities' lack of expertise, Ukrainian and Russian corporate laws and regulations throughout this transition period were contradictory in many respects and contained many gaps. As a result, most Ukrainian and Russian companies, including the Group's subsidiaries, may have been in violation of certain mandatory provisions which were applicable to them at certain periods.

In particular, the Ukrainian and Russian subsidiaries of the Group may not have fully complied with all applicable corporate laws and regulations that were in effect in the area of privatization, share issuance and registration, formation of charter (share) capital, share transfers, reporting requirements, net assets sufficiency, organizational form of a legal entity, certain transfers of interests or shares in the Group's subsidiaries, etc.

Depending on the nature of such violations, the Group could face various legal consequences, including loss of title to some of its assets or shares in its subsidiaries, invalidation of transactions, administrative fines, a request from governmental authorities to remedy the violations within a prescribed time period, inability to increase charter (share) capital, obligation to decrease charter capital which may lead to requests from creditors for early termination of contractual relations, requests for mandatory winding-up proceedings, request for reorganization proceedings, or requests to unwind a previous transaction. To date, the Group has not received any notice of violation from any third party or governmental authority and, although it does not expect that any party would seek to review or challenge any of the corporate actions/transactions of the Group (to a great extent because the applicable limitation periods should have expired), there can be no assurance that this will not occur. A successful challenge of certain corporate actions/transactions could materially adversely affect the Group's business results of operations, financial condition and prospects.

The Group may be subject to penalties imposed by the Antimonopoly Committee of Ukraine

The Group's business has grown substantially over the recent years through the establishment and acquisition of companies' integral property complexes, etc. in and outside of Ukraine. Certain of such transactions might have required obtaining of prior merger control approvals from the Antimonopoly Committee of Ukraine ("AMC"). Similarly to many other businesses in Ukraine, members of the Group were not always in the position to comply with all the applicable AMC merger control requirements; in addition, the relevant legislation was not always certain or sufficiently developed and its implementation was often inconsistent. As a result, members of the Group received retrospective AMC approvals for some transactions pertaining to the establishment of the Group, while there still might have been other transactions pertaining to the establishment of the Group, which required obtaining of the AMC approvals and for which such approvals have not been obtained.

The failure to obtain necessary AMC approvals for such transactions could subject the Group and its controlling shareholder, Anatoliy Yurkevych (together with all persons related to him by control) to fines in the amount of up to 5% of Group's consolidated revenue and the revenue of all other related by control to the Group and its controlling shareholder directly or indirectly entities/persons, which are not included into Group's consolidated revenue, for the financial year immediately preceding the year in which the fine is imposed, or in the worst case the respective transactions may be invalidated through court procedures and the respective companies may be dissolved (such invalidation and dissolution may only apply if the transactions are found to have led to the creation of a monopoly or substantially reduced competition in any market or part thereof).

The Group believes that none of the transactions pertaining to the establishment of the Group has led to the creation of a monopoly or substantially reduced competition in any market in Ukraine, and any actions on the part of the AMC in relation to a number of such past transactions would be barred under the applicable statute of limitations in Ukraine, and it therefore expects that any administrative fine in respect of the failure to obtain AMC approvals for such transactions is likely to be substantially less than the maximum amount specified above, or time-barred. However, there can be no assurance that this will be the case, nor that the AMC will not conclude that transactions which led to the Group formation were done in contravention of applicable competition legislation and that competition in Ukraine has not been reduced as a result. Any such findings could result in the imposition of further administrative sanctions or fines on the Group or require the divestiture of such newly acquired or created company or other assets, adversely affecting the Group's business, results of operations, financial condition and prospects.

The Group has recently submitted yet another filing to the AMC seeking for retrospective AMC approval for some other transactions which led to the Group formation. As the result of the review of such retrospective filing the AMC will clear the notified transactions (provided such transaction did not lead to monopolization of the market, substantial reduction of competition on the market). Simultaneously the AMC may open cases on infringement with respect to such transactions and may impose fines in the amount mentioned above.

However, this filing still does not cover any and all transactions, which led to the current Group structure, therefore the AMC may further investigate the Group in this regard. In case the AMC comes to the conclusion that any of the transactions (not retrospectively cleared by the AMC) pertaining to the Group formation required obtaining of prior AMC approvals and such approvals were not obtained, the AMC may subject the Group and its controlling shareholder (together with all persons related to him by control) to further sanctions as described above.

The Group may be subject to fines for violation of Ukrainian currency control legislation

Milkiland-Ukraine acquired 100% of the shares of Milkiland Corporation (Panama) from the Company by way of contribution by the Company of 100% of Milkiland Corporation's shares into the charter capital of Milkiland-Ukraine. The Company valued its contribution of the shares of Milkiland Corporation to the charter capital of Milkiland-Ukraine in the amount of approximately EUR 1.1 million. This transaction may be interpreted as falling within the requirement of obtaining an individual license of the NBU for acquisition of shares in a foreign company such as Milkiland Corporation. Milkiland-Ukraine has not obtained such a NBU license. However, after acquisition of the shares in Milkiland Corporation, Milkiland-Ukraine applied to the NBU for an explanatory letter in respect of contribution of the shares in a foreign company into its charter capital. In its explanatory letter the NBU informed that no individual license of the NBU was required for the acquisition by Milkiland of 100% of the shares of Milkiland Corporation in the particular situation because it was a contribution to its charter capital in exchange for participatory interests, which are not regarded as "currency values" under the applicable Ukrainian legislation. This notwithstanding, the NBU argued further that such acquisition may be considered as an "in-kind investment" of Milkiland-Ukraine, and as such it should be subject to licensing by the Ministry of Economy of Ukraine. In practice the Ministry of Economy of Ukraine normally issues such licenses only for investment of physical assets outside of Ukraine and it is not clear if the Ministry of Economy of Ukraine would be prepared to grant a license for investment of non-tangible property rights such as participatory interests in Milkiland-Ukraine. If the latter is the case, Milkiland-Ukraine should apply for an explanatory letter of the Ministry of Economy of Ukraine confirming this position. Milkiland-Ukraine has not obtained any explanatory letter from the Ministry of Economy of Ukraine yet. In theory, failure to comply with the requirement to obtain a license for investment abroad prior to the acquisition of the shares of Milkiland Corporation may result in imposition of sanctions on Milkiland-Ukraine. In an adverse scenario, a remote risk exists that Milkiland-Ukraine may be subject to a fine in the amount of 100% of value of the shares, i.e., EUR 1.1 million, administrative sanctions (including confiscation of the shares) or subject to individual licensing and/or suspension of any of its cross-border operations. Additionally, Milkiland-Ukraine is obliged to file regular declarations to the NBU in respect of the shares of Milkiland-Corporation, which are regarded as "currency values" for the purposes of the Ukrainian currency control rules. Failure to declare such foreign currency values may result in additional fines on Milkiland-Ukraine.

The Group's business could be adversely affected if detrimental price controls are introduced for the Group's key products

Under Ukrainian law, local state authorities may regulate prices for some food products. In particular, the local state authorities may from time to time oblige producers of certain food products, including drinking milk, tvorog, sour cream and butter, to declare any change in the wholesale prices for such products which exceeds 1% per month. Share of such products in Group's sales by volume for the period of 6 months of 2010 was less than 3%. The State Inspection on Pricing may refuse to approve the submitted declaration if it considers that the economic grounds for the increase of the prices are not properly justified. In practice, the Group did not experience major obstacles from local state authorities in establishing prices for its products. However, from time to time the Group has paid insignificant fines for violation of pricing regulations. Currently, one of the Group's companies is in litigation with local State Inspection on Pricing regarding alleged unjustifiable income received by the Group company as the result of the failure to declare change in the wholesale prices. Furthermore, the CMU introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. The Group believes that the approach the Group uses for determining the wholesale prices for the Group's products is in line with the formula established by the above procedure.

Furthermore, the CMU has authority to establish minimum prices on raw milk purchased from the agricultural producers for the purpose of calculation of subsidies and as a base for calculation of the purchase price for raw milk acquired from producers. Based on the guidance issued by the Ukrainian state authorities, the Group believes that such minimum prices for raw milk are not mandatory. As of the date of this Prospectus, the Group has not experienced any proceedings, investigations or penalties relating to the violation of minimum raw milk prices. However, as a strict legal matter, all unjustifiable income received by the Group as the result of violation of price discipline established by the state is subject to confiscation to the local state budget, and the Group is furthermore subject to a fine in the double amount of unjustifiable income. If detrimental price controls are introduced for the Group's key products or the Group fails to comply with the Ukrainian price regulation, its business, prospects, results of operations, financial condition or the price of the Shares could be materially adversely affected. See - "*Industry Overview – State Price Control – Price Control in Ukraine*".

Under Russian Law the Government of the Russian Federation may establish maximum retail prices in respect of certain socially important food products, including butter and drinking milk. If the retail prices for such food products increase by more than 30% within 30 calendar days in a row, in one or more territorial subjects of the Russian Federation, the Government of the Russian Federation may establish maximum permitted retail prices for these products for a period of up to 90 days in the respective territorial subject(s) of the Russian Federation. If detrimental price regulation is established by the Russian Government in respect of the specified products and/or the Group fails to comply with the introduced price regulation mechanism described, its business, results of operations and financial condition could be adversely affected. See - "*Industry Overview – State Price Control – Price Control in Russia*".

The Group may lose control over some of its subsidiaries as the result of bringing its activities in compliance with the new Ukrainian JSC Law

Currently, the Group controls all of its subsidiaries. Some of the Group's Ukrainian subsidiaries exist in the form of a joint stock company ("JSC"). According to the new Ukrainian law on JSC's (the "JSC Law") which came into force on 30 April 2009, JSCs must bring their activities into compliance with the JSC Law no later than two years from the effective date of the JSC Law. The Group believes that it is able to meet the deadline. However, the JSC Law establishes higher voting thresholds required for the adoption of certain decisions at the general meeting of shareholders, for example amendments of the charter, increase or decrease of the charter capital, reorganization, liquidation, requires ¾ of votes of all shareholders, as opposed to currently effective voting threshold of ¾ of votes of shareholders present at such meeting. Since the Group owns less than 75% of the shares in Iskra and Transportnyk, there is a risk that the Group may be unable to adopt the supermajority shareholders' decisions. Since 25% of Transportnyk's shares are owned by the state enterprise, there is a risk that the Group may not be able to increase its shareholding in Transportnyk above 75%. However, the significance of Iskra and Transportnyk for the Group's operations is not high.

Furthermore, since Iskra and Chernigiv Dairy Plant have more than 100 minority shareholders, they should be transformed into public joint stock companies. Transformation into a public joint stock company triggers the requirement of mandatory listing on a Ukrainian stock exchange, as well as imposes additional disclosure and compliance obligations. If the Group loses some control over some of its subsidiaries as the result of bringing its activities into compliance with the JSC Law, it may adversely affect the Group's business, results of operations, financial condition and prospects.

The Group may be limited in its ability to obtain ownership rights to land or renew its lease agreements or the payments under the Group's land lease agreements may increase

The Group's ability to obtain full ownership rights to leased agricultural land plots is limited by a legislative moratorium on sales of agricultural land which is currently in force in Ukraine. Furthermore, the Group may face increasing competition for suitable land plots from other companies operating in the Ukrainian agro-industrial sector, which may result in higher prices for land. Inability by the Group to secure ownership rights to suitable land plots either at commercially acceptable terms or at all could affect the Group's business.

The majority of the Group's agricultural land plots are leased from a large number of individuals, while the remaining land plots are leased from local authorities. There is a significant administrative burden creating a number of legal risks, including a risk of fragmentation of the Group's land bank if it is unable to continue to lease land from its contiguous individual lessors. Any challenge to the validity or enforceability of the Group's rights to land plots it currently leases or may lease in the future may result in the loss of the respective lease rights. In addition, the Group's land lease agreements are entered into for varied periods of time, ranging from one to 49 years. Although under Ukrainian law the Group has a pre-emptive right to extend the term of a lease agreement upon its expiry, subject to the Group's compliance with the terms of original lease, the lessors' willingness to continue leasing the land and the absence of any other potential lessees offering better terms, there can be no assurance that all lease agreements will be renewed upon their expiration. In addition, Ukrainian legislation requires the lease rights to land plots held in state or municipal ownership to be allocated through an auction unless there are buildings owned by the lessee on the relevant land plot. While the Group owns the real estate property located on the land plots it occupies, it has not formalized the lease or ownership to all of the land plots on which its properties are located. Any loss by the Group of its lease rights to land plots could adversely affect the Group's business, results of operations, financial condition and prospects.

Under Ukrainian legislation, the parties to a land lease agreement are generally free to determine the amount of payments under such agreement. However, the lease payments in respect of agricultural land held in state or municipal ownership may not be lower than the land tax in respect of the relevant land plot, calculated as a percentage of the appraised value of a particular land plot. The appraised value of land plots is reviewed by Ukrainian authorities on an annual basis. Following such review, state or municipal lessors are entitled under Ukrainian law to unilaterally increase the lease payments in respect of the relevant land plot pro rata to the new value of such plot. Currently land lease payments are not material within the Group's total costs. But a significant increase of the land lease payments could adversely affect the Group's business, prospects, results of operations, financial condition or the price of the Shares. However, the share of the land lease payments in the total Group cost is not material.

The Issuer may become tax resident in a jurisdiction other than the Netherlands

The Issuer is incorporated in the Netherlands and is consequently considered resident in the Netherlands for Dutch tax purposes. Generally, in order to maintain Dutch tax residence, management and control of the Issuer must take place in the Netherlands. If management and control of the Issuer were to be conducted in a jurisdiction other than the Netherlands, the Dutch tax residency of the Issuer could be jeopardised. Consequently, the Issuer must meet all applicable requirements to maintain its Dutch tax residency. In general, under these requirements, the Board of Directors should not be comprised of a majority of individuals who are resident for tax purposes in a single jurisdiction other than the Netherlands and all strategic or significant operational decisions or resolutions of the Board of Directors should be made in the Netherlands.

If management and control of the Issuer takes place in another jurisdiction, or strategic or significant operational decisions or other management activities take place in that jurisdiction, the Issuer may be subject to tax in that other jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residency "tie-breaker" provision in any double tax treaty between the Netherlands and that jurisdiction. Taxation of the Issuer in a jurisdiction other than the Netherlands could materially adversely affect the Issuer's financial condition and prospects.

Risks Relating to Ukraine

For the year ended 31 December 2009, approximately 62% of the Group's total sales revenues were generated from production in Ukraine. As a consequence, risks and events that have a material adverse effect on the Group's operations in Ukraine could, in turn, have a material adverse effect on its overall business, financial condition, results of operations or prospects. Set forth below is a brief description of some of the risks incurred by investing in a company with substantial assets and operations in Ukraine.

Political considerations

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy However, this process of economic transition is not complete. Historically, a lack of political consensus in the Verkhovna Rada, or Parliament of Ukraine has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

The first round of the recent presidential elections was held on 17 January 2010; however, no candidate won 50% or more of the popular vote and the two highest polling candidates, Victor Yanukovych, a leader of Partiya Regioniv (the Party of Regions), and Yuliya Tymoshenko, leader of Yuliya Tymoshenko's Bloc, took part in the second round of elections. On 7 February 2010 Victor Yanukovych and Yuliya Tymoshenko won 48.95% and 45.47% of the popular vote, respectively. Although Yuliya Tymoshenko initially contested the results of the elections, she subsequently conceded and Viktor Yanukovych was inaugurated as President of Ukraine on 25 February 2010.

On 3 March 2010, the incumbent Prime Minister Yuliya Tymoshenko was voted out of the Government following a vote of no confidence by the Parliament. On 11 March 2010, fractions of Party of Regions, Volodymyr Lytvyn Bloc and the Communist Party of Ukraine and several other deputies formed a new parliamentary coalition consisting of 235 deputies. On the same day, the Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the new members of the Government. Currently, the Government consists mainly of members of the President's Party of Regions with a few positions being occupied by representatives of other political forces.

On 11 March 2010, the Law of Ukraine amending the Regulation on the Parliament of Ukraine ("Parliament Law") in relation to the procedure for forming the Parliamentary coalition came into effect. Under the Parliament Law, the coalition is formed by a majority of members of Parliament, including fractions and individual members of Parliament. On the same day, the Parliament endorsed the establishment of a new coalition "Stability and Reforms", formed by fractions of the Party of Regions, the Communist Party of Ukraine and Bloc Lytvyna as well as sixteen individual members of Parliament.

In March 2010, two applications have been submitted to the Constitutional Court of Ukraine by two groups of members of the Parliament, one of which requested an official interpretation, while the other questioned the constitutionality of certain provisions of the Law of Ukraine "On regulations of the Verkhovna Rada of Ukraine" ("Parliament Regulations Law") dated 10 February 2010 in the context of the ability of individual deputies (as opposed to parliamentary factions) to take part in the formation of the majority coalition in the Parliament. On 6 April 2010, the Constitutional Court of Ukraine ruled in its decision that the provisions of the Parliament Regulations Law and the Constitution of Ukraine should be interpreted as allowing individual deputies to join the majority coalition. This decision of the Court however, was issued in response to the request for an official interpretation of the provisions of the Parliament Regulations Law, and the Court has not expressly opined on the constitutionality of such provisions in its decision. Accordingly, no assurance can be given that the Court will not declare the relevant provisions of the Parliament Regulations Law unconstitutional in response to the submission of the second group of parliamentarians in future. Such an outcome may result in further political upheaval and instability in Ukraine.

On 30 September 2010 the Constitutional Court of Ukraine declared unconstitutional the law according to which the Constitution of Ukraine had been amended and Ukraine's state regime had been changed from presidentially-parliamentarian to parliamentary-presidential. Following this, the parliament of Ukraine adopted a law on the government of Ukraine. As a result, the president of Ukraine regained the powers to appoint, upon consent of majority of the parliamentarians, and dismiss a prime-minister, to appoint and dismiss ministers upon submission of the prime-minister, to appoint and dismiss heads of other central state bodies and regional governors; to abolish decrees of the government; to dismiss the prosecutor general without consent of the parliament.

As of the date of this Prospectus, relations between the President, the Government and Parliament, as well as the procedures and rules governing the political process in Ukraine, remain in a state of uncertainty and may be subject to change through the process of political alliance-building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court. Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. A number of factors could adversely affect political stability in Ukraine. These could include: court action taken by opposition parliamentarians against decrees and other actions of the President or the Government or court action by the President against parliamentary or governmental resolutions or actions.

If political instability occurs, it may have negative consequences for the Ukrainian economy and, as a result, a material adverse effect on Group's business, prospects, results of operations, financial condition or the price of the Shares.

Economic considerations

In recent years, the Ukrainian economy has been characterized by a number of features that contribute to economic instability, a relatively weak banking system providing limited liquidity to Ukrainian businesses, tax evasion, significant capital flight, and low wages and pensions for a large portion of the Ukrainian population.

The implementation of reforms has consistently faced the obstacles of a lack of political consensus, controversies over privatization (including privatization of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

The negative trends in the Ukrainian economy may continue while commodity prices on the external market remain low and access to foreign credit is limited, unless Ukraine undertakes certain important economic and financial structural reforms. The most critical structural reforms that need to be implemented or continued include: (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions.

In 2009, the Ukrainian government incurred a budget deficit of UAH 19.9 billion (according to the Ministry of Finance of Ukraine) and GDP, as calculated in the national currency, decreased by 20.2% in the first quarter of the year, 17.8% in the second quarter of the year, 16.0% in the third quarter of the year and 6.8% in the fourth quarter of the year, each as compared to the corresponding periods in 2008. However, it should be noted that the international investment markets generally evaluate Ukrainian GDP in U.S. dollar terms and that the recent U.S. dollar/Hryvnia exchange rate volatility has further impacted the reported GDP decrease. Accordingly, the IMF reported that Ukraine's GDP amounted to USD 179.6 billion in 2008 and USD 115.7 billion in 2009, a decrease of 35.6% year-on-year. In 2010, the CMU and the National Bank of Ukraine decided not to wait until the publication of the growth index of the actual gross domestic product of Ukraine for the first half of the year by the Derzhkomstat in mid-August. In July 2010, Mykola Azarov, Prime-Minister of Ukraine, reported that GDP in January-June grew by 6.3%. The Administration of the President has previously reported of the GDP growth by 6.1% in January-May 2010.

Failure to achieve the political consensus necessary to support and implement such reforms and any resulting instability could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform, may have negative impact on the Ukrainian economy and, as a result, on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

In addition, the current global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could have a material adverse effect on the Ukrainian economy and, as a result, on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect its financial condition and results of operations

The weakened economic conditions in Ukraine, caused by the recent global crisis, have resulted in higher unemployment and increased levels of social unrest. In addition, both the Ukrainian and international press continue to report high levels of official corruption in Ukraine. Press reports have described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The Group's business, and the value of the Shares, could be adversely affected by white-collar crime, illegal activities, corruption or by claims implicating the Group in illegal activities.

Regional relationships

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS countries largely because Ukraine imports a large proportion of its energy requirements, mainly from Russia (and from other countries that deliver energy to Ukraine through Russia). In addition, a large portion of Ukrainian service proceeds come from transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. Apart from Russia, Ukraine also developed significant relationships with certain countries of the European Union ("EU") (including Germany, Poland, Hungary, Slovakia and Romania), as well as with Turkey.

Relations between Ukraine and Russia cooled to a certain extent due to disagreements in late 2005 and early 2006 and 2009 over the prices and methods of payment for gas delivered by the Russian gas monopoly OJSC Gazprom, and the stationing of the Russian Black Sea Fleet (Chornomorskyi Flot). In January 2006, Russia introduced a ban on imports of meat and milk products from Ukraine. Although the ban was lifted in July 2010, there can be no assurance that Russia will not apply such or similar measures in the future.

Although following the recent election of President Yanukovych, Ukraine's relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, this may have negative impact on the Ukrainian economy as a whole and thus on the Group's business, results of operations, financial condition and prospects. On 21 April 2010, the Presidents of Ukraine and the Russian Federation agreed to amend existing gas supply agreements between Naftogaz of Ukraine and Gazprom to the effect that Gazprom will introduce a discount to the previously agreed price formula. According to media reports, the formulas in the 2009 agreements, which tie the price of imported gas to European benchmark prices, remain intact but Gazprom will offer a discount of: (i) a maximum USD 100 per cubic meter if the price for natural gas is USD 333 (or higher); or (ii) 30% if the price is below USD 333 per cubic meter. The discount was provided in exchange for certain concessions for stationing the Russian Black Sea Fleet on the territory of Ukraine, such as extending the lease terms for an additional 25 years from 2017 with further 5-year period extensions after the 25-year term. On 27 April 2010 the Ukrainian and Russian Parliaments ratified the agreement.

More than 20% of Ukrainian goods are currently exported to Russia, while much of Russian exports of energy resources are delivered to the EU via Ukraine. Considerable dependence of the Ukrainian economy on Russian energy exports together with increase in natural gas price by Russia may adversely affect the pace of economic growth of Ukraine. Furthermore, gas price increases may force Ukraine to launch certain reforms in the energy sector and modernization of major energy-consuming industries through the implementation of efficient technologies and modernization of production facilities. However, there can be no assurance that this will take place.

Any major adverse changes in Ukrainian relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or affecting Ukrainian revenues from transit charges for Russian oil and gas, would likely have negative effects on certain sectors of the Ukrainian economy and thus may materially adversely affect the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Ukraine's developing legal system

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to:

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- difficulty in predicting the outcome of judicial application of Ukrainian legislation;
- not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organized form,
- several fundamental Ukrainian laws either have only recently become effective or are still pending in Parliament.

All of these factors make judicial decisions in 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, prospects, results of operations, financial condition or the price of the Shares.

Ukraine's judicial system

The independence of the judicial system and its immunity from economic and political influences in Ukraine remains questionable. Although the Constitutional Court of Ukraine is the only body authorized to exercise constitutional jurisdiction and has been mostly impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system lacks staffing and funding. Judicial decisions under Ukrainian law generally have no precedent effect, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Only a small number of judicial decisions are publicly available and therefore the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public is generally limited. However, according to the law "On Access to Court Decisions" which became effective on 1 June 2006, all decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 have been made generally available to the public from 1 January 2007.

The Ukrainian judicial system became more complicated and hierarchical as a result of recent judicial reforms. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system may have a negative impact on the Ukrainian economy as a whole, and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

Ukraine's physical infrastructure is in poor condition, which could disrupt normal business activity

Ukraine's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately funded and maintained. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Ukraine are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Ukraine's physical infrastructure may disrupt the Group's normal business activity.

Further deterioration of Ukraine's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Ukraine and interrupt business operations, any or all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Ukraine is continuing to develop. The court system is understaffed and underfunded. Ukraine is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims can be used in furtherance of personal aims different from the formal substance of the claims. The Group may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to the Group and its investors.

State authorities have a high degree of discretion in Ukraine and at times they exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law. Unlawful or unilateral state actions could include the withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. National and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at the Group, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. The Issuer accepts responsibility only for the correct extraction and reproduction of such information.

Economic instability in Ukraine could adversely affect the Group's business

Since the dissolution of the Soviet Union, the Ukrainian economy has experienced at various times: (i) significant declines in gross domestic product; (ii) hyperinflation; (iii) an unstable currency; (iv) high state debt relative to gross domestic product; (v) a weak banking system providing limited liquidity to Ukrainian enterprises; (vi) a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings; (vii) significant use of barter transactions and illiquid promissory notes to settle commercial transactions; (viii) widespread tax evasion; (vix) the growth of ''black'' and ''grey'' market economies; (x) high levels of capital flight; (xi) high levels of corruption and the penetration of organised crime into the economy; (xii) significant increases in unemployment and underemployment; and (xiii) the impoverishment of a large portion of the Ukrainian population.

Fluctuations in the global economy

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of imports tariffs by the United States, the EU or by other major exports markets. Any such developments may have negative effects on the Ukrainian economy as a whole and thus may materially adversely affect the Group's business, prospects, results of operations financial condition or the price of the Shares.

Corruption and money laundering issues

Independent analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and other state authorities, as well as various entities carrying out financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, the Financial Action Task Force on Money Laundering ("FATF") removed Ukraine from its list of Non-Cooperative Countries and Territories in February 2004 and discontinued the formal monitoring of Ukraine in January 2006.

In February 2010 Ukraine was mentioned by FATF as having demonstrated progress in improving its AML/CFT regime despite still having certain strategic AML/CFT deficiencies. Ukraine has made a high-level political commitment to work with the FATF and MONEYVAL to address these deficiencies, including by: (i) adequately criminalising money laundering and terrorist financing (Recommendation 1 and Special Recommendation II), (ii) enhancing financial transparency (Recommendation 4); and (iii) establishing and implementing an adequate legal framework for identifying and freezing terrorist assets (Special Recommendation III). In early June 2009, the Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine. In particular, the laws contain provisions relating to measures to prevent corruption, introduce a more detailed regulation of responsibility for involvement in corruption (including the responsibility of legal entities) and provide for international cooperation in combating corruption. Although the newly adopted legislation is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force on 1 January 2011, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities. Any future allegations of corruption in Ukraine or evidence of money laundering may have a negative effect on the ability of Ukraine to attract foreign investment and thereby on the Ukrainian economy as a whole and thus may materially adversely affect the Group’s business, prospects, results of operations, financial condition or the price of the Shares.

Ukrainian tax system

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, personal income tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Group's Ukrainian business. For example, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30% to 25%, and a new flat personal income tax was introduced initially at a rate of 13% for almost all types of income, which subsequently increased to 15% from 1 January 2007. Reports indicate that Parliament will pass a new Tax Code in 2010, which would combine principal tax rules in one document and may result in a number of changes to the existing tax rules.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorized by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine which are more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances.

While the Group believe that it is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on the Group's business, prospect, results of operations, financial condition or the price of the Shares.

Risks Relating to Russia

General

A substantial part of the Group’s operational assets is located in, and its revenues derived from, Russia. There are certain risks associated with an investment in developing markets, including Russia, which may be greater than risks inherent in more developed markets. Generally, investing in Russia is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in, the Russian market. Investors should also note that the Russian market is subject to rapid change and, as a result, the information set out in this Prospectus may become outdated relatively quickly. Accordingly, economic and/or political instability in Russia or an increase in the perceived risks associated with investing in Russia could have a material adverse effect on the Group’s business, prospects, results of operations, financial condition or the price of the Shares. See also – “*Economic instability in Russia could adversely affect the Group’s business”*.

Political and governmental considerations

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst the executive, legislative and judicial authorities, which negatively impacted the Russian Federation’s business and investment climate. Starting from 2000, the former President, Vladimir Putin, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 2 December 2007, elections to the State Duma (the Russian parliament’s lower chamber) were held and, on 2 March 2008, presidential elections were held in Russia. Mr Medvedev became President on 7 May 2008 and Mr Putin became Prime Minister on 8 May 2008. Shifts in governmental policy and regulation in Russia 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 Russian Government, major policy shifts or lack of consensus between the President of Russia, the Russian Government, Russia’s parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Group in particular, and the Group's prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

The emergence of any new or escalated tensions in the region could negatively affect the economy of Russia and other countries that are involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the Ordinary Shares and the Group's ability to raise debt or equity capital in the international capital markets.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict and terrorist attacks in certain regions of Russia. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines in the Russian stock exchanges and capital outflow from Russia. Such tensions, military conflict or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could cause disruption to domestic commerce and exports from Russia, disrupt normal economic activity in Russia and materially adversely affect the Group's business, prospects, financial condition and results of operations.

Actions by the Russian legislative, executive and judicial authorities can affect the Russian securities market. In particular, the events surrounding claims brought by the Russian authorities against several major Russian and foreign companies (including JSC NK Yukos, TNK-BP and Shell) have led to questions being raised regarding the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy. Any further such actions by the Russian authorities that result in a negative effect on investor confidence in Russia's business or legal environment could have a material adverse effect on the Russian securities market and prices of Russian securities or securities issued by overseas entities with substantial assets in Russia.

Economic instability in Russia could adversely affect the Group's business

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times: (i) significant declines in gross domestic product; (ii) hyperinflation; (iii) an unstable currency; (iv) high state debt relative to gross domestic product; (v) a weak banking system providing limited liquidity to Russian enterprises; (vi) a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings; (vii) significant use of barter transactions and illiquid promissory notes to settle commercial transactions; (viii) widespread tax evasion; (vix) the growth of "black" and "grey" market economies; (x) high levels of capital flight; (xi) high levels of corruption and the penetration of organised crime into the economy; (xii) significant increases in unemployment and underemployment; and (xiii) the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, in 1998, the Russian state defaulted on its Rouble denominated securities and imposed a temporary moratorium on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian groups to raise funds in the international capital markets. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licenses of a few mid-sized banks were withdrawn. Throughout the second half of 2008, the Russian financial markets have been characterized by extreme volatility in both the debt and equity segments and reductions in foreign investment. Furthermore, the first half of 2009 saw a substantial decrease in gross domestic product as the real sector of the Russian economy experienced a sharp decline in production levels. In light of these developments, international rating agencies have downgraded Russia's sovereign credit rating, which reflects an assessment by such agencies that there is an increased credit risk that the government may default on its obligations. These assessments may lead to a further reduction in foreign investment and an increased cost of borrowing for the Russian Government. Although the Russian stock markets have experienced a rebound during the second half of 2009, there can be no assurance that this trend will continue in the future or that it will have a positive impact on the Russian economy in the long-term.

Crime and corruption could disrupt the Group's ability to conduct its business

The weakened economic conditions in Russia, caused by the recent global crisis, have resulted in higher unemployment and increased levels of social unrest. In addition, both the Russian and international press continue to report high levels of official corruption in Russia, including the bribery of officials for the purpose of initiating investigations by state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The Group's business, prospects, results of operations, financial condition or the price of the Shares could be adversely affected by white-collar crime, illegal activities, corruption or by claims implicating the Group in illegal activities.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately funded and maintained. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt the Group's normal business activity. For example, during the winter of 2000/2001, electricity and heating shortages in the Russian Federation's far eastern Primorye region seriously disrupted the local economy. In May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. In August 2009, a major accident at the Sayano-Shushenskaya hydroelectric power plant resulted in a significant power shortage in Khakassia and neighbouring regions, causing several local production plants to halt operations, as well as environmental damage to the surrounding areas.

In addition to having restructured and substantially privatized the electricity sector, the Russian Government is also seeking to reorganize its railway and telephone systems, as well as the public utilities sector. The recent economic downturn may delay these reorganization plans which could lead to further deterioration in Russia's physical infrastructure. Moreover, the restructuring of the electricity sector has not yet yielded the anticipated capital investment that is needed to repair, maintain and improve the existing power generating facilities and supply routes.

Further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Changes in the foreign policy of the Russian Government and changes in its key relationships could adversely affect the Russian political and economic environment in general

Russia's exports are commodity driven and are heavily oriented toward developed nations and nations with fast-growing economies. Nevertheless, Russia's foreign policy interests have often diverged from the interests and goals of its main trading partners. There can be no assurance that Russia's political relationships with key trading partners will remain at the level where they currently stand. Any deterioration in relations with any one or more nations could result in a lower volume of exports and a lower volume of inbound investment and other transfers. Changes in the Russian Government's policy or deterioration in key relationships with its trading partners, in particular, with Ukraine, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. See: "*Risks Relating to Ukraine – Regional Relationships*".

Expropriation and nationalization

As a consequence of the international financial crisis and the resulting downturn in the Russian economy, an increased presence of the Russian state has been observed in the private sector. On a number of occasions, the state has (through its relevant governmental bodies or state-owned enterprises) acquired, directly or indirectly, controlling interests in various companies experiencing financial difficulties or facing insolvency. It has been speculated in the press that in some of these cases state intervention was not only aimed at assisting ailing businesses but also at furthering the aims of business groups closely associated with the state. In some instances, the price of such distressed acquisitions was unilaterally imposed by the state on the sellers. Although Russian government officials, including the Russian Prime Minister, have on several occasions in the past noted that state intervention measures are temporary and limited to companies with significant social obligations, the scope and scale of the Russian state's further intervention in the private sector during the economic downturn may not be predicted with certainty.

The Russian Government has enacted legislation to protect property against expropriation and nationalization. Furthermore, in the event that the Group's property is expropriated or nationalized, legislation provides for fair compensation to be paid to the Group. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of an independent judicial system, sufficient mechanisms to enforce judgments and corruption among Russian state officials.

The concept of property rights is not well developed in the Russian Federation and there is a lack of experience in enforcing legislation enacted to protect private property against nationalization and expropriation. As a result, the

Group may not be able to obtain proper redress in the courts and may not receive adequate compensation if, in the future, the Russian state authorities decide to nationalize or expropriate some or all of the Group's assets. The expropriation or nationalization of any of the Group's or its subsidiaries' assets without fair compensation may have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Social instability caused by weakening economic conditions as well as high levels of crime in Russia could increase support for renewed centralized authority, nationalism or violence

The weakening economic conditions and turmoil in the financial markets in Russia may result in high unemployment or the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to certain labour and social unrest that may continue or escalate in the future. Such labour and social unrest may have widespread political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including restrictions on foreign involvement in the Russian economy, and increased tension between the Russian Government and the Russian population. Any of these consequences could restrict the Group's operations and lead to a loss of revenue, materially adversely affecting the Group.

The Russian legal system and Russian legislation are still being developed and this may create an uncertain environment for investment and for business activity

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure.

Among the possible risks of the current Russian legal system are:

- inconsistencies among (i) federal laws, (ii) decrees, orders and regulations issued by the president, the Russian Government, federal ministries and regulatory authorities and (iii) regional and local laws, rules and regulations;

- limited judicial and administrative guidance on interpreting Russian legislation;

- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;

- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;

- a high degree of discretion on the part of governmental authorities; and

- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these factors make judicial decisions in the Russian Federation 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, prospects, results of operations, financial condition or the price of the Shares.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Russia is continuing to develop. The court system is understaffed and underfunded. Russia is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims can be used in furtherance of personal aims different from the formal substance of the claims. The Group may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to the Group and its investors.

State authorities have a high degree of discretion in Russia and at times they exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law. Unlawful or unilateral state actions could include the withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at the Group, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Russian tax law and practice are not fully developed and are subject to frequent changes

The Group is subject to a broad range of taxes and other compulsory payments imposed at federal, regional and local levels, including, but not limited to, profits tax, exports duties, VAT, natural resources production tax, property tax and social taxes. Tax laws, such as the Tax Code of the Russian Federation ("Russian Tax Code"), have been in force for a short period relative to tax laws in more developed market economies, and the implementation of these tax laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continual changes to the interpretation of existing laws. Furthermore, the tax environment in Russia has been complicated by the fact that various authorities have often interpreted tax legislation inconsistently. Although the quality of Russian tax legislation has generally improved with the introduction of the first and second parts of the Russian Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Group's business, prospects, financial condition and results of operations. A large number of changes have been made to various chapters of the Russian Tax Code since their introduction.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and some of the sections of the Russian Tax Code are comparatively new, interpretation of these laws and regulations is often unclear or non-existent. Taxpayers and the Russian tax authorities often interpret tax laws differently. In some instances, Russian tax authorities have applied new interpretations of tax laws retroactively. Differing interpretations of tax regulations exist both among and within Russian Government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs) if the transaction price deviates from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (that is, if the price of such transaction differs from the prices applied in similar transactions within a short period of time by more than 20%). Special transfer pricing rules apply to securities transactions and derivatives. The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction. The Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force in the near future. Such amendments, if adopted, are expected to result in stricter transfer pricing rules.

It should also be noted that Russian law does not provide for the possibility of group relief or fiscal unity. Consequently, tax losses of any Russian legal entity in a group may not be surrendered to reduce the tax liability of any other Russian legal entity of such group.

There can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, together with the potential for state budget deficits, raise the risk of the imposition of additional taxes on the Group. The introduction of new taxes or amendments to current taxation rules may have a substantial impact on the overall amount of the Group's tax liabilities. There is no assurance that the Group would not be required to make substantially larger tax payments in the future, which may adversely affect its financial results. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian affiliates to significant fines and penalties and enforcement measures, and could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Foreign court judgments may not be enforceable against the Group's Russian subsidiary Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. Such treaties do not exist between the Russian Federation and many foreign countries. However, the Group is aware of one instance in which Russian courts have recognized and enforced a judgment of a court of a country with which Russia does not have an international treaty to that effect. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both countries were parties. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognize and enforce a foreign court judgment on these grounds. Consequently, judgments against Russian subsidiary of the Group and their officers or directors predicated upon the civil liability provisions of foreign securities laws may not be enforced against such subsidiaries of Group and such persons in the courts of the Russian Federation without re-examination of the issues in the Russian Federation whether they are brought in original actions or in actions to enforce judgments. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, inter alia, on public policy grounds.

Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its Russian subsidiary

Russian law generally provides that shareholders in a Russian company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an effective parent. An entity whose decisions are capable of being so determined is deemed an effective subsidiary. Under Russian law, such an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in accordance with mandatory instructions of an effective parent if such effective parent has the right to give such instructions under a contract with the subsidiary or otherwise.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the wilful action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. Accordingly, the Group could be liable in some cases for the debts of Ostankino. This liability, which is secondary in the case of Ostankino's insolvency or bankruptcy and several with the liability of Ostankino in the case of responsibility for transactions concluded by Ostankino in accordance with the Group's mandatory instructions, could have a material adverse effect on the Group's business, prospects, results of operations financial condition or the price of the Shares.

Risks Related to Shares, Listing and Trading on the WSE

Investors' shareholding, voting rights and the earnings per Share may be diluted

Investors' shareholding and voting rights in the Issuer and the earnings per Share may be diluted as a result of an issuance of additional Shares with exclusion of Investors' pre-emptive rights.

The market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares

In connection with the Offering certain lock-up arrangements will be made with respect to the issue of new Shares by the Issuer. For further details see - "*The Offering and Plan of Distribution—Lock up Agreements*". The existing Shares may be sold by the Selling Shareholder. Once the lock-ups have expired or have been terminated, new Shares may be issued by the Issuer without any restrictions. There can be no assurance as to whether or not issues or sales of substantial amounts of Shares will take place on the market in the foreseeable future. The Group can not be predicted what effect such future sales of existing Shares held by the Selling Shareholder or issues of new Shares by the Issuer, if any, may have on the market value of the Shares. However, there can be no assurance that sales of Shares by the Selling Shareholder or by other shareholders in the Issuer, or issue of new Shares by the Issuer or the perception that such sales or issues could occur, could adversely affect, even if temporarily, the market value of the Shares and could adversely affect the Issuer's ability to raise capital through future capital increases.

There is no guarantee that the Issuer will pay dividends in the future

The Issuer is under no continuous obligation to pay regular dividends to its shareholders. Any payment of dividends in the future will depend upon decisions of the Board of Directors and the General Meeting (at which the Selling Shareholder may represent a majority of voting rights). Payment of (future) dividends may only be made if the Issuer's net assets exceed the sum of the amount of the paid and called up part of the capital and any reserves required to be maintained by law or by the Articles of Association and the respective articles of association of the Group Companies. Furthermore, for the decision to pay dividend the following factors (among others) shall also be taken into account: the Group Companies' business prospects, future results of operations, cash flows, financial position, reinvestment needs, expansion plans, contractual restrictions, and other factors the Board of Directors and/or the General Meeting deem relevant, which do not necessarily have to coincide with the short-term interests of all the Issuer's shareholders.

In addition, distribution of dividends from particular operating companies (determining the level of the Issuer's freely distributable reserves) may be delayed, depending on the particular operating company position in the structure of the Group. With respect to some of the operating companies, the delay may reach up to two financial years. Consequently, in a particular year the Issuer's level of freely distributable reserves will depend on the operating companies' profits distributed to the Issuer from different financial years. Therefore, the amount of freely distributable reserve at the Issuer's level may not reflect the consolidated net profit of the Group for the last financial year.

There can be no assurance that the Issuer will make any dividend payments in the future. As at the date hereof, the Issuer expects to pay dividends in the future, however it will depend on the approval of the General Meeting. For further details, see - "*Dividends and Dividend policy*". Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

The price of the Issuer's Shares may fluctuate

The market price of shares listed on a regulated market is determined by supply and demand, which depends on a number of factors (including changes in Issuer's financial results, differences between the financial results and market expectations, changes in the profit estimates made by analysts, comparison of the perspectives of various sectors of the economy, the overall economic situation, changes in laws applicable to the sector in which the Group operates and other events and factors which are independent of the Issuer), as well as reactions of investors which are difficult to predict. In the event of significant price fluctuations, the shareholders may fail to achieve their planned gains or incur losses. Furthermore, consideration should be given to the fact that the market value of the Issuer shares may differ significantly from the expected Offer Price. This is possible, in particular, as a result of periodic changes in the Issuer's financial results, the liquidity of the stock market, the conditions prevailing on the WSE, the conditions prevailing on world markets, as well as changes in economic and political factors.

Listed companies from time to time experience significant fluctuations in their share prices and trading volumes, which can also negatively affect the market price of the Issuer's Shares.

The admission of the Issuer's Shares to trading on the WSE should not be construed as the guarantee of their liquidity. If an appropriate level of trading is not achieved or maintained, it could have a material impact on the liquidity and price of the Issuer's Shares. Even if the appropriate level of trading in the Shares is achieved, the market price of Shares may be below the expected Offer Price.

Securities or industry analysts may cease to publish research or reports about Issuer's business or may change their recommendations regarding the Issuer's Shares

The market price and/or trading volume of the Issuer's Shares may be influenced by the research and reports that industry or securities analysts publish about the Issuer's business. There can be no guarantee of continued and sufficient analyst research coverage for the Issuer, as the Issuer has no influence on analysts who prepare such researches and reports. If analysts fail to publish reports on the Issuer regularly or cease publishing such reports at all, the Issuer may lose the visibility in the capital markets, which in turn could cause the Issuer's Shares price and/or trading volume to decline. Furthermore, analysts may downgrade the Issuer's Shares or give negative recommendations regarding the Issuer's Shares, which could result in a decline of the share price.

The Issuer may be unable to list the Issuer's Shares on the WSE

The admission of the Issuer's Shares to trading on the WSE requires that, (i) the Issuer's Shares are registered with the clearing and settlement system of the NDS and (ii) the management board of the WSE approves the listing and trading of the Issuer's Shares on the WSE. To obtain the WSE management board's approval the Issuer has to meet certain requirements provided for in the respective regulations of the WSE and other applicable laws. Such requirements include, but are not limited to: (i) the appropriate free float of the Issuer's Shares, (ii) no restriction on transferability of the Issuer's Shares and (iii) preparation and publication of the audited financial statements for the past three accounting years. Furthermore, while examining the Issuer's application for admission of the Issuer's Shares to trading on the WSE, the management board of the WSE will take into consideration: (i) the Issuer's financial situation and its economic forecasts, (ii) the Group's development perspectives, in particular, the chances for successful completion of its investment plans, (iii) experience and qualifications of the members of the Issuer's Board of Directors and (iv) security of public trading on the WSE. Some of the conditions mentioned above are of discretional nature and, therefore, the Issuer cannot assure that the management board of the WSE will conclude that the Issuer meets all of them.

The rules of the WSE require the Issuer to file an application for the introduction of Shares to trading on the WSE within a period of six months from the date on which the Issuer's Shares have been admitted to such trading. If the Issuer fails to comply with this obligation, the decision of the management board on the admission of the Issuer's Shares to trading on the WSE could be annulled.

The Issuer intends to take all the necessary steps to ensure that its Shares are admitted to trading on the WSE as soon as possible after the closing of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that the Issuer's Shares will be admitted to trading on the WSE on the Listing Date as expected or at all.

Trading in the Issuer's Shares on the WSE may be suspended

The WSE management board has the right to suspend trading in the Issuer's Shares for up to three months (i) at the request of the Issuer, (ii) if the Issuer fails to comply with the respective regulations of the WSE (such as specific disclosure requirements), or (iii) if it concludes that such a suspension is necessary to protect the interests and safety of market participants.

Furthermore, the WSE management board shall suspend trading in Shares for up to one month upon the request of the PFSA, if the PFSA concludes that trading in the Issuer's Shares is carried out in circumstances which may impose a possible threat to the proper functioning of the WSE or the safety of trading on that exchange, or may harm investors' interest.

Moreover PFSA may suspend trading or delist Issuer's Shares upon the request of the other Member State supervision authority. In such case the PFSA shall file with the request for suspension or delisting of the Issuer's Shares to the WSE, unless it will not harm significantly investors' interests and the trading safety.

The Issuer will make all endeavours to comply with all applicable regulations in this respect. However, there can be no assurance that trading in the Issuer's Shares will not be suspended. Any suspension of trading could adversely affect the Issuer's Share price.

The Issuer's Shares may be delisted from the WSE

If the Issuer fails to fulfil certain requirements or obligations under the applicable provisions of securities laws, including in particular the requirements and obligations provided for under the Polish Public Offerings Act and Trading in Financial Instruments Act, the PFSA could impose a fine on the Issuer or delist its Shares from trading on the WSE.

Furthermore, the WSE management board shall delist the Issuer's Shares from trading upon the request of the PFSA, if the PFSA concludes that trading in the Issuer's Shares imposes a significant threat to the proper functioning of the WSE or the safety of trading on that exchange, or infringes investors' interest. The mandatory delisting will be also effected by the WSE management board where: (i) transferability of Shares has become restricted, (ii) Shares are no longer in book entry form, (iii) the PFSA has requested so, or (iv) the Issuer's Shares have been delisted from another regulated market by a competent supervisory authority over such market, provided that the Issuer's Shares were traded on another regulated market.

Moreover, the WSE management board may also delist the Issuer's Shares where, (i) the Shares cease meeting all requirements for admission to trading on the WSE, (ii) the Issuer persistently violates the regulations of the WSE, (iii) the Issuer has requested so, (iv) the Issuer has been declared bankrupt or a petition for bankruptcy has been dismissed by the court because the Issuer's assets do not suffice to cover the costs of the bankruptcy proceedings, (v) the WSE considers it necessary to protect the interests of the market participants, (vi) following a decision on a merger, split or transformation of the Issuer, (vii) no trading was effected in the Shares within a period of three previous months, (viii) the Issuer has become involved in a business that is illegal under the applicable provisions of laws, and (ix) the Issuer is in liquidation proceedings.

The Issuer believes that as at the date hereof there are no circumstances which could give grounds for delisting of the Shares from the WSE in the foreseeable future. However, there can be no assurance that any of such circumstances will not arise in relation to the Issuer's Shares in the future. Delisting of the Issuer's Shares from the WSE could have an adverse effect on the liquidity of the Shares and, consequently, on investors' ability to sell the Shares at a satisfactory price.

There can be no assurance regarding the future development of market for the Shares and its liquidity

There was no prior market for the Shares and therefore, there can be no assurance regarding the future development of such market and future demand for the Issuer's Shares. The lack of a primary and/or developed and liquid public market for the Shares may have a negative effect on the ability of shareholders to sell their Shares or the price at which the holders may be able to sell their Shares. Moreover, if a market for the Shares on the WSE were to develop, the Shares could trade at prices that may be higher or lower than the Offer Price, depending on many factors. Therefore, there can be no assurance as to the liquidity of any trading in the Shares or that the Shares will be actively traded on the WSE, which may limit or prevent the Issuer's shareholders from readily selling their Shares.

The marketability of the Issuer's Shares may decline and the market price of the Issuer's Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Issuer's operating performance and decline below the Offer Price

The Issuer cannot assure that the marketability of the Issuer's Shares will improve or remain consistent. The Offer Price in the Offering may not be indicative of the market price for the Issuer's Shares after the Offering has been completed. Shares listed on regulated markets, such as the WSE, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of the Issuer's Shares may fluctuate widely, depending on many factors beyond the Issuer's control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by the Operating Company and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general the status of the securities market, governmental legislation and regulations, as well as general economic and market conditions, such as recession. These and other factors may cause the market price and demand for the Issuer's Shares to fluctuate substantially and any such development, if adverse, may have an adverse effect on the market price of the Issuer's Shares which may decline disproportionately to the Operating Company's operating performance. The market price of the Issuer's Shares is also subject to fluctuations in response to further issuance of shares by the Issuer, sales of Shares by the Issuer's major shareholders, the liquidity of trading in the Shares and capital reduction or purchases of Shares by the Issuer as well as investor perception. As a result of these or other factors, there can be no assurance that the public trading market price of the Issuer's Shares will not decline below the Offer Price.

The Issuer will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares

Prior to the Offering, the Selling Shareholder owns 94.0% of the Issuer's outstanding Shares and immediately after the Offering the Selling Shareholder will own 72.8%, provided that all Offer Shares are placed with investors. Consequently, the free float of Shares held by the public will be limited.

In addition, the WSE requires that at the share capital of a company to be listed on the main market of the WSE must be adequately diluted, i.e. part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital. If the Offer Shares are acquired by a limited number of large investors, there is a risk that the share capital would not be adequately diluted and as a result the WSE would not approve the Shares for listing on the main market of the WSE and, consequently, the Shares would be listed on the parallel market of the WSE.

EXCHANGE RATES

Most of the Group's operations are carried out in Ukraine and Russia, hence its principal internal reporting currencies are the Hryvnia and Rouble, as it reflects the economic substance of the underlying events and circumstances of the Group.

Most of the Group's sales are invoiced in the Hryvnia and Rouble, which are not freely tradable currencies. The local exchange rates in Ukraine and Russia are managed by the NBU and CBR, respectively. Although most loan facilities extended to the Group are denominated in USD, the Group also borrows funds in RUB, UAH, and EUR. Therefore, fluctuations in the value of UAH and RUB compared to EUR and USD could have an impact on the Group's financial condition and results of operations.

The Group's Financial Statements included in this Prospectus are presented in EUR.

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between main operational and reporting currencies used in the preparation of the Group's Financial Statements appearing in this Prospectus.

	USD per UAH	EUR per UAH	EUR per RUR	EUR per USD
Average rate for the year ended 31 December, 2007	5.0500	6.9179	35.3149	1.3733
Closing rate as of 31 December, 2007	5.0500	7.4185	35.9332	1.4721
Average rate for the year ended 31 December, 2008	5.2672	7.7080	36.4364	1.4767
Closing rate as of 31 December, 2008	7.7000	10.8555	41.4411	1.4097
Average rate for the year ended 31 December, 2009	7.7912	10.8679	44.1299	1.3949
Closing rate as of 31 December, 2009	7.9850	11.4489	43.3883	1.4338
Average rate for the six months period ended 30 June, 2010	7.9435	10.5844	39.9787	1.3266
Closing rate as of 30 June, 2010	7.9070	9.7027	38.1863	1.2271

Source: NBU, CBR

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between PLN (as a base currency) and USD, UAH, EUR, and Rouble.

	USD per PLN	EUR per PLN	UAH per PLN	RUR per PLN
Closing rate as of:				
31 December, 2007	2.4350	3.5820	0.4814	0.0995
31 December, 2008	2.9618	4.1724	0.3730	0.1008
31 December, 2009	2.8503	4.1082	0.3558	0.0950
31 July, 2010	3.0731	4.0080	0.3891	0.1016

Source: Company based on data from NBP website at www.nbp.gov.pl.

USE OF PROCEEDS

The Group intends to raise approximately EUR 80 million of gross proceeds from the issue of New Shares in the Offering. The net proceeds that the Group will receive from the issue of the New Shares in the Offering, after deducting the estimated commissions, costs and expenses associated with the Offering, are to be approximately EUR 75.7 million . Final details on the net proceeds from the Offering will be published within two weeks from the Settlement Date in a manner consistent with Dutch and Polish regulations.

The net proceeds from the sale of the New Shares will be used primarily for fulfilling of the Group's investment programme going forward and financing of acquisitions and new value added projects. The Group's 2011-12 business plan envisages the following uses of capital:

- Upgrade of Okhtyrsky Cheese Plant with a resulting increase in capacity of 7 thousand tonnes at investment cost of EUR 10 million;

- Modernization of Ostankino to bring the facility to a state-of-the-art condition investment budget is estimated between EUR 10 million and EUR 13 million;

- Expansion of milk farms to house 3,500-4,000 milking cows (investment budget of EUR 8 million);

- Increase in working capital needs following capacity expansion.

On top of this, the Group is actively looking for acquisitions and brownfield projects to accelerate its growth and strengthen market position. Specifically, the Group contemplates the acquisition or building of a cheese-making unit in Russia with a target capacity of 15-20 thousand tonnes, which is estimated to cost between EUR 40 million and EUR 60 million.

To the extent the net proceeds of the Offering of the New Shares are not invested in any way described above they will otherwise be used for modernization of production facilities, supporting of the Group's working capital needs, optimizing the cost and size of the Group's debt obligations, and for other general corporate purposes in line with the Group's business strategy.

The Group will not receive any portion of the proceeds from the sale of the Over-allotment Shares by the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

Since the Group's strategy is focused on the dynamic growth of its business, the Board of Directors will consider recommending to the General Meeting the payment of dividends at levels consistent with the Group's growth and development plans.

In accordance with the Issuer's Articles of Association and Dutch law, every year part of the net profit of the Issuer will be set aside in order to build up the legal reserve. The remaining balance of the net profit will be at the disposal of the General Meeting. Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting. Furthermore, interim dividends may be paid by the Board of Directors, in accordance with the conditions provided for by Dutch law and upon prior approval of the General Meeting.

Payment of any future dividends will effectively depend on the discretion of the General Meeting after taking into account various factors, including the Group's business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Dutch law (as described above).

All Shares, including the Offer Shares, carry equal dividend rights.

Within the period covered by historical financial statements the Issuer did not pay dividends.

For information related to dividend rights and dividend payments, please see – "Description of the shares and corporate rights and obligations – Distribution of Profits".

CAPITALISATION AND INDEBTEDNESS

The table below presents a statement of capitalisation and indebtedness as at 31 August 2010.

Total Current debt	**44,919**
Interest bearing loans due to banks	42,936
Loans from non-financial institutions	300
Bank overdrafts	1,537
Finance leases	146
Total Non-Current debt (excluding current portion of long – term debt)	**60,797**
Interest bearing loans due to banks	36,289
Loans from non-financial institutions	24,216
Finance leases	292
Non-controlling interests	**13,375**
Shareholder's equity:	**60,605**
Share capital	2,500
Retained earnings	35,456
Other Reserves	22,649
Total capitalisation and indebtness	**179,696**

A. Cash	2,729
B. Cash deposit	5,204
C. Trading securities	-
D. Liquidity (A) + (B)+(C)	7,933
E. Financial receivable within trade and other receivable and taxes receivable	47,642
F. Current Bank debt including bank overdrafts and finance leases	(44,619)
G. Current loans from non-financial institutions	(300)
H. Financial liabilities within trade and other payable	(19,378)
I. Current Financial Debt (F)+(G)+(H)	(64,297)
J. Net Current Financial Indebtedness (I)+(E)+(D)	(8,722)
K. Non-current Bank loans	(36,581)
L. Other non-current loans	(24,216)
M. Non current Financial Indebtedness (K)+(L)	(60,797)
N. Net Financial Indebtedness (J)+(M)	**(69,519)**

Working capital statement

The Issuer states that, in its opinion, the working capital is sufficient for the Group's present requirements in the period of twelve months from the date of the Prospectus.

SELECTED HISTORICAL FINANCIAL INFORMATION

The following table sets forth certain selected consolidated financial data for the periods indicated, which have been extracted from the audited Combined Financial Statements for the years ended 31 December 2007 and 2006, the audited Consolidated Financial Statements as at 31 December 2009, with comparable data for 2008 and from the unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2010 with comparable data for 2009.

The Group was not fully formed until 2008 and did not produce consolidated financial statements until that year. Furthermore, Ostankino was only acquired by, and consolidated into, the Group in 2008. Due to these reasons historical financial information included into this Prospectus as of and for the year ended 31 December 2007 is not directly comparable to the Group's historical financial information as of and for the year ended 31 December 2008.

The information below should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto and included elsewhere in this Prospectus and with the information included in ''Operating and Financial Review''.

Consolidated Statement of comprehensive income
(All amounts in EUR thousands unless otherwise stated)

	For the periods ended 31 December			For the periods ended 30 June	
	2007	2008	2009	2009	2010
Revenue	164,939	270,417	200,008	100,383	121,094
Cost of sales	(107,911)	(187,531)	(129,975)	(66,788)	(74,986)
Gross profit	**57,028**	**82,886**	**70,033**	**33,595**	**46,108**
Government grants recognised as income	284	389	339	28	251
Selling and distribution expenses		(20,309)	(18,687)	(9,702)	(9,912)
Administration expenses	(36,279)	(39,741)	(26,250)	(13,917)	(13,135)
Other expenses, net		(5,856)	(3,233)	(1,293)	(5,960)
Operating profit	**21,033**	**17,369**	**22,202**	**8,711**	**17,352**
Finance income	44	31	853	82	603
Finance costs	(6,776)	(15,053)	(14,189)	(7,612)	(6,828)
Foreign exchange loss, net	(587)	(15,856)	(948)	218	1,216
Other income/(expenses)	232	-	-	-	-
Non-operating income/(expenses), net	(98)	_	_	_	_
Profit before tax	**13,849**	**(13,509)**	**7,921**	**1,399**	**12,343**
Income tax	(1,547)	(2,489)	245	(1,143)	(636)
Profit for the year	**12,302**	**(15,998)**	**8,166**	**256**	**11,707**
Gain realised from acquisitions		23,366	_	_	_
Net profit for the year	**12,302**	**7,368**	**8,166**	**256**	**11,707**
Other comprehensive income/(loss)					
Exchange differences on translating to presentation currency	(2,764)	(13,168)	(2,982)	(1,828)	8,220
Gains on revaluation of properties	-	32,776	20,433	_	_
Tax effect on revaluation of properties	-	(10,018)	(4,522)	_	_
Total comprehensive income	**9,538**	**16,958**	**21,096**	**(1,572)**	**19,927**
Profit attributable to:					
Owners of the company	12,282	6,227	8,109	(19)	11,544
Non-controlling interests	20	1,141	57	276	163
	12,302	7,368	8,166	256	11,707

Total comprehensive income/(loss) attributable to:					
Owners of the Company	**9,518**	17,511	18,216	(1,420)	18,204
Non-controlling interests	20	(553)	2,880	(151)	1,723
	9,538	**16,958**	**21,096**	**(1,572)**	**19,927**
Earnings per share, basic and diluted (in EUR cents)	**-**	**43.93**	**32,44**	**(0.08)**	**46.18**

Selected balance sheet items
(All amounts in EUR thousands unless otherwise stated)

	For the periods ended 31 December			For the periods ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
Balance Sheet Data:					
Current Assets					
Cash and cash equivalents	28,006	3,181	6,676	1,709	8,010
Trade and other receivables incl. Prepayments	25,324	27,210	21,787	24,573	21,840
Inventories	18,954	16,965	18,866	18,814	27,094
Current income tax assets	-	60	280	221	232
Other taxes receivable	3,929	4,856	8,744	7,305	23,392
Total current assets...	**76,213**	**52,272**	**56,353**	**52,622**	**80,568**
Non-Current Assets					
Goodwill	-	2,060	1,968	1,948	2,236
Property, plant and equipment	57,620	111,974	119,843	108,165	136,115
Other intangible assets	71	341	339	435	375
Deferred income tax assets	2,860	6,989	5,545	7,043	19,607
	60,551	**121,364**	**127,695**	**117,591**	**158,333**
Total assets	**136,764**	**173,636**	**184,048**	**170,213**	**238,901**
Liabilities and equity					
Current liabilities					
Trade and other payables	28,810	19,161	13,576	21,832	20,390
Current income tax liabilities	-	340	16	119	272
Other taxes payable	1,336	673	822	978	1,569
Short term loans and borrowings	37,982	68,072	30,986	66,707	44,148
Short term lease payable	-	607	_	_	_
	68,128	**88,853**	**45,400**	**89,636**	**66,379**
Non-current liabilities					
Loans and borrowings	36,570	30,443	61,949	27,460	59,524
Deferred income tax liability	2,860	24,837	25,993	25,208	43,274
Deferred income	-	389	496	367	521
Total non-current liabilities	**39,430**	**55,669**	**88,438**	**53,035**	**103,319**
Total liabilities..	**107,558**	**144,522**	**133,838**	**142,671**	**169,698**
Equity attributable to owners of the Company					

Share capital	18	2,500	2,500	2,500	2,500
Additional paid-in capital	2,482	-	-	-	-
Revaluation reserve	-	22,758	32,689	21,615	31,305
Declared dividends	51	-	-	-	-
Currency translation reserve	(3,214)	(11,474)	(14,152)	(12,875)	(7,474)
Retained earnings	28,682	6,230	16,525	7,353	29,598
	28,019	**20,014**	**37,562**	**18,593**	**55,929**
Non controlling interests	1,187	9,100	12,648	8,949	13,274
Total equity	**29,206**	**29,114**	**50,210**	**27,542**	**69,203**
Total liabilities and equity	**136,764**	**173,636**	**184,048**	**170,213**	**238,901**

Selected cash flow statement items

(All amounts in EUR thousands unless otherwise stated)

	For the periods ended 31 December			For the periods ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
Cash flow from operating activities:					
Profit before taxation	13,849	(13,509)	7,921	1,399	12,343
Adjustments for:					
Depreciation and amortization	5,729	9,665	7,665	3,884	4,492
Foreign exchange loss	3,332	15,856	948	(218)	(1,216)
Loss from revaluation and disposal of property, plant and equipment	-	1,491	1,717	(33)	82
Change in provision for bad and doubtful debts	-	(1,058)	(426)	278	(81)
Change in provision and write off of unrealised VAT	-	-	-	320	5,156
Finance costs, net	6,776	15,031	13,333	7,530	6,225
Operating cash flows before working capital changes	**29,686**	**27,476**	**31,160**	**13,160**	**27,001**
Changes in assets and liabilities:					
(Increase)/decrease in accounts receivable and prepayments	(17,985)	(2,014)	(2,824)	(485)	3,974
(Increase)/decrease inventories	(10,352)	3,080	(2,910)	(2,209)	(4,750)
(Increase) decrease other taxes receivable	(352)	1,245	(4,262)	(2,944)	(17,271)
(Decrease)/increase in other taxes payable	631	(540)	(61)	332	567
(Decrease)/increase in accounts payable	22,750	(10,041)	3,002	5,214	3,490
Cash used by operations:	**24,378**	**19,206**	**24,105**	**13,068**	**13,011**
Interest paid	(6,637)	(13,587)	(14,435)	(7,544)	(6,790)
Interest received	-	-	429	82	602
Income taxes paid	(1,379)	(2,127)	(1,375)	(1,040)	(449)
Net cash from operating activity	**16,362**	**3,492**	**8,724**	**4,566**	**6,374**
Investing activities:					
Proceeds from sale of property, plant and	-	102	145	93	15

equipment					
Acquisition of property, plant and equipment	(24,357)	(5,835)	(2,190)	(905)	(1,833)
Acquisition of subsidiaries, net of cash acquired	(7,389)	(27,048)	_	_	(696)
Net cash from investment activity	**(31,746)**	**(32,781)**	**(2,045)**	**(812)**	**(2,514)**
Financing activities:					
Dividends paid off	(2,818)	-	-	-	-
Change in equity	(15)	-	-	-	-
Other payments paid off	-	(2,808)	(570)	(569)	-
Proceeds from borrowings	42,686	56,725	20,277	12,657	37,087
Repayment of borrowings	-	(45,855)	(22,625)	(17,286)	(40,784)
Net cash from financial activity	**39,853**	**8,062**	**(2,918)**	**(5,198)**	**(3,697)**
Effect of exchange rate changes on cash and cash equivalents	(382)	(763)	(266)	(26)	1,171
Net increase in cash	**24,087**	**(21,990)**	**3,495**	**(1,470)**	**1,334**
Cash at beginning of the period	3,919	25,171	3,181	3,181	6,676
Cash at the end of the period	**28,006**	**3,181**	**6,676**	**1,711**	**8,010**

OPERATING AND FINANCIAL REVIEW

The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Financial Statements, the notes thereto and the other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward looking statements due to various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

The financial data contained in this section has been extracted from the audited Combined Financial Statements for the years ended 31 December 2007 and 2006, the audited Consolidated Financial Statements as at 31 December 2009, with comparable data for 2008 and from the unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2010 with comparable data for 2009.

Overview

The Group is one of the leading CIS producers and distributors of quality dairy products with its principal operations in Ukraine and the Russian Federation.

In 2009, the Group had consolidated revenue of EUR 200 million and Adjusted EBITDA of EUR 32.5 million, as compared to consolidated revenue of EUR 270.4 million and Adjusted EBITDA of EUR 29.6 million in 2008. In the six months ended 30 June 2010, the Group had consolidated revenue of EUR 121.1 million and Adjusted EBITDA of EUR 22.0 million, as compared to consolidated revenue of EUR 100.4 million and Adjusted EBITDA of EUR 13.3 million in the six months ended 30 June 2009.

See "Selected Consolidated Financial Information" for reconciliation of Adjusted EBITDA to profit before tax.

The Group reports its business in two geographic segments, Russia and Ukraine. Each Russian and Ukrainian segment is further reported in the following product segments:

- ***Whole milk and other milk products***: production and distribution of whole milk products, butter and dry milk;
- ***Cheese:*** production and distribution of cheese; and;
- ***Other products:*** production and distribution of ice cream and other dairy products, such as condensed milk.

Formation of the Group

The Issuer was incorporated on 13 July 2007 under Dutch law as a private limited liability company. On 23 May 2008, the Issuer was converted into a public limited liability company.

The Group was fully formed in 2008 through reorganisation. In January 2008 the Issuer acquired 100% of the corporate rights in Milkiland-Ukraine (the sub-holding company for the other Ukrainian subsidiaries of the Group) from Milkiland Corporation for an aggregate consideration of US$ 1.98 million. In the same year, the Issuer acquired 100% of the shares in Milkiland Corporation from Axel Management Inc. for an aggregate consideration of EUR 2.4 million. In September 2009, the Issuer contributed 100% of shares in Milkiland Corporation to the charter capital of Milkiland-Ukraine.

Summary of Acquisitions

The Group has sought to develop a geographically diverse vertically integrated business comprising both the collection and processing of milk through the purchase of assets that it believes offer significant growth potential.

The following is a summary of the terms of the Group's principal acquisitions. The acquired entities were consolidated in the Group's financial statements from the date on which the Group acquired, directly or indirectly, an interest of more than one half of voting rights in an entity or otherwise obtained power to govern the financial and operating policies of an entity to obtain economic benefits. Acquisitions were accounted for using the purchase method of accounting. The cost of an acquisition is measured at a 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.

Acquisitions in 2007

In 2007, companies controlled by Milkiland Corporation acquired the following principal entities from unrelated third parties: Transportnyk (located in Kyiv), First Kyiv Dairy Plant, Chernigiv Dairy Plant, Gorodnyansky

Butter Plant and Iskra. Additional acquisitions from third parties enlarged the geographical range of the Group as well as extending its raw milk collection and production capacity.

Acquisitions in 2008

In January 2008, the Issuer acquired 75.23% of the shares of Ostankino from third parties for an aggregate consideration of US$ 41.0 million.

Disposals in 2009

In 2009, the Group disposed of LLC Moldim and LLC MKP Revers after the transfer of all major assets and liabilities to other companies within the Group.

Acquisitions in 2010

In May 2010, the Issuer entered into a share purchase agreement with Catapel Ltd. under which the Issuer plans to additionally acquire (in three tranches) approximately 17.8% of the shares in Ostankino's share capital for an aggregate amount of RUR 295 million (approximately EUR 7.7 million). As of the date of this prospectus, the Issuer has already made the first payment and second and acquired an additional 9.79% of the share capital in Ostankino for EUR 3.8 million. The next tranche of payment is scheduled for 31 March 2011. In addition, in June 2010 the Group acquired a further 0.63% of the shares in Ostankino from another minority shareholder for EUR 0.2 million.

Recent Developments

In 2010, the Group demonstrated significant growth with a 21% increase in consolidated revenues (to EUR 121.1 million) in the first half of 2010 as compared to the same period in 2009. The Group's gross profit for the same period increased by 37% to EUR 46.1 million, while Adjusted EBITDA grew to EUR 21.9 million, representing a 65% growth increase compared to the same period of 2009.

In July 2010 the Group commenced modernization of its dairy farms and agricultural infrastructure, aiming to start operation of 3,500-4,000 -cow facilities in 2011. The total project cost is estimated at EUR 8.0 million. In 2010 the Group will invest around EUR 2.0 million.

Between July and September 2010, the Group resolved the issue with the export VAT refund that had negatively influenced the Group's working capital in the first half of 2010. As at 30 June 2010, the Group had a VAT refund receivable of EUR 23.0 million. Between 30 June and September 2010, the Group has received a VAT refund in an aggregate amount of EUR 13.3 million, of which EUR 9.3 million were received in VAT bonds, and EUR 4 million in cash. The VAT bonds were sold by the Group at lower 18.3% compared favourably to 30% provision used by the Group in its financial accounting. In addition to the VAT bonds, the Group received EUR 4.0 million in cash as the result of the following operation: the Group purchased grain from the Agrarian Fund of Ukraine and used a portion of Group's outstanding VAT refund to offset to the Agrarian Fund of Ukraine the purchase price for such grain. This grain was further sold to a third party for a consideration of EUR 4 million.

Financial Statements Discussed

The Group was not fully formed until 2008 and did not produce consolidated financial statements until that year as Milkiland N.V. Furthermore, Ostankino was only acquired by, and consolidated into, the Group in 2008. Accordingly, historical financial information included into this Prospectus for the year ended 31 December 2007 is not directly comparable to the Group's historical financial information for the year ended 31 December 2008.

Certain Factors Affecting Results of Operations

State Support for Agricultural Production in Ukraine and Russia

In view of the importance of the agricultural sector to the national economy as well as the need to improve living conditions in rural areas, support of the agricultural sector is one of priorities for the Ukrainian and Russian governments. During the periods under review, state support to the agricultural sector was provided in various forms, including special tax regimes, tax privileges, direct subsidies and compensations.

Since 1998 and in the six months ended 30 June 2010, the Ukrainian suppliers of raw milk benefited from the VAT refunds, which was advantageous for Ukrainian milk processors, including the Group, as prices for raw milk have being lower. In addition, the Group insignificantly benefited from various forms of state support, which resulted in tax savings for the Group as well as certain direct government grants and financial subsidies. The principal tax benefits and state support programmes beneficial for the Group are summarized below.

- *Special taxation regime for the agricultural producers.* Ukrainian agricultural producers, including four companies of the Group, benefit from a special regime of taxation. According to this special regime, they are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20%) and the VAT paid on items purchased for their operational needs. Such subsidies may be used by agricultural companies for any business purposes. This VAT benefit was received by the Group in 2008 and 2009 in the amount of EUR 389 thousand and EUR 339 thousand, respectively, and continues to be available to the Group. Currently, the VAT exemption is in force for an indefinite period. If it is cancelled or modified, it may negatively affect the Group's results of operations.

- *Subsidies to raw milk producers.* Ukrainian dairy producers, including the milk processing companies of the Group, should use the VAT that they charge on their dairy products solely to pay subsidies to the suppliers of raw milk instead of remitting such amounts to the state budget. The subsidy is calculated as the difference between the VAT that dairy producers charge on their dairy products and the VAT that they pay on raw milk purchased from the raw milk producers, and it should be paid by the dairy producers to special accounts opened by the raw milk suppliers. This VAT benefit was received by the producers of raw milk since 1998, and continues to be available to them. If the relevant VAT benefit is cancelled or modified, it may result in the increase of the purchase price of raw milk, which could materially adversely affect the Group, its business, results of operations and financial condition and prospects.

- *VAT refunds in connection with exports sales.* 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. The complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers during the administration of taxes and such refunds. Due to high budget deficit, many taxpayers entitled to a VAT refund, may not receive such refund in practice or may not be able to offset VAT against other taxes and duties (mandatory payments). In its financial accounting the Group applies 30% provision for exports VAT receivables to reflect risks associated with VAT refunds. As of 30 June 2010, the amount of exports VAT refund owed to the Group by the government was EUR 23.0 million (net of provision of EUR 8.8 million). During the period from 1 July 2010, the Group has received the compensation of VAT in the total amount of EUR 13.3 million, including EUR 4.0 million in cash and EUR 9.3 million in VAT bonds. The VAT bonds were sold by the Group at 18.3% discount which is beneficial compared to provision applied. Although the Group until now managed to collect exports VAT receivables in sufficient amounts, there is a risk that any failure by the Group to receive such refunds may adversely affect its results of operations.

- *Fixed Agricultural Tax (FAT).* In addition to the VAT benefits discussed above, Ukrainian producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, in accordance to the Law of Ukraine “On the Fixed Agricultural Tax”, dated 17 December 1998, as amended (“Law on Fixed Agricultural Tax”), agricultural companies register as payers of fixed agricultural tax (“FAT”), provided that sales of agricultural goods representing their own production account for more than 75% of their gross revenue. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of the deemed value (determined as of 1 July 1995) of land plots used for agricultural production that are leased or owned by a taxpayer, at the rate of 0.15%. In accordance with the Law on Fixed Agricultural Tax, one of the Group companies, Agrosvit is registered as FAT payer. In each year of 2007, 2008 and 2009, Agrosvit paid FAT in an aggregate amount of approx. EUR 1.0 thousand. According to the amendments to the Law on Fixed Agricultural Tax as of 2008, the FAT regime was extended for an unlimited period, however there is no guarantee that the FAT regime will not be discontinued in the future, which could have an adverse effect on the Group’s business, results of operations, financial conditions and prospects.

- *Financial support from the City of Moscow.* In 2009, the Group received a EUR 680 thousand subsidy as a partial compensation for the cost of packaging materials purchased from a Russian national supplier. The Group expects to receive a similar subsidy in 2010. In 2008 and 2009, the Group received EUR 442 thousand and EUR 140 thousand, respectively, in subsidies from the City of Moscow as a partial compensation of costs of building and refrigerating equipment renovations completed and commissioned in the relevant periods. In addition, the Group received a loan in an aggregate amount of Rouble equivalent of EUR 4.4 million at a preferential 3.5% interest rate (increasing to 4.5% per annum) from the City of Moscow. The Group did not receive any financial support from the City of Moscow in the six months ended 30 June 2010.

Currency Exchange Rates

The Group's sales generated earnings primarily in Hryvnia and Roubles, while the Group's reporting currency is Euro. Therefore, depreciation of Hryvnia or Rouble against the Euro results in a decline in the Group's revenue in Euro terms thus having a negative effect on the Group's results of operations. In addition, a significant portion of the Group's finance costs (primarily in relation to loans) is denominated in Euro and U.S. dollars, and any depreciation of Hryvnia against these currencies has a negative effect on the Group's results of operations.

While Hryvnia remained stable against the U.S. dollar and Euro in 2007 and in the first nine months of 2008, it began to depreciate against these currencies in the fourth quarter of 2008 due to the impact of the global financial downturn on the Ukrainian economy. Hryvnia depreciated from an average exchange rate of 1.00 U.S. dollar to 5.05 Hryvnia in 2007, to 1.00 U.S. dollar to 5.27 Hryvnia in 2008, to 1.00 U.S. dollar to 7.79 Hryvnia in 2009, and to 1.00 U.S. dollar to 7.96 Hryvnia in the six months ended 30 June 2010. Hryvnia depreciated from an average exchange rate of 1.00 Euro to 6.92 Hryvnia in 2007, to 1.00 Euro to 7.71 Hryvnia in 2008, to 1.00 Euro to 10.87 Hryvnia in 2009, and appreciated to 1.00 Euro to 10.58 Hryvnia in six months ended 30 June 2010. As depreciation of Hryvnia was more significant in the fourth quarter of 2008, it had a more significant impact on the Group's results of operations in 2009 as compared to 2008.

The table below shows the nominal exchange rate for Hryvnia and Rouble in 2007, 2008 and 2009 and the six months ending 30 June 2009 and 2010.

	Year Ended 31 December			**Six Months Ended 30 June**	
	2007	**2008**	**2009**	**2009**	**2010**
Hryvnia					
Nominal exchange rate (Rouble per Hryvnia)[(1)]	0.20	0.21	0.25	0.23	0.27
Nominal exchange rate (U.S. Dollar per Hryvnia)[(1)]	5.05	5.27	7.79	7.68	7.94
Nominal exchange rate (Euro per Hryvnia)[(1)]	6.92	7.71	10.87	10.24	10.58
Rouble					
Nominal exchange rate (Hryvnia per Rouble)[(2)]	5.06	4.76	3.95	4.19	3.76
Nominal exchange rate (U.S. Dollar per Rouble)[(2)]	25.55	24.87	31.77	33.27	30.05
Nominal exchange rate (Euro per Rouble)[(2)].................	35.31	36.44	44.13	44.24	39.98

Sources: NBU, CBR.

Notes:

(1) Average of the official exchange rates set by the NBU during the relevant period.

(2) Average of the official exchange rates set by the Central Bank of the Russian Federation during the relevant period. The exchange rates are calculated based on information published by the Central Bank of the Russian Federation. For the purposes of calculation only dates on which the Central Bank of the Russian Federation effectively set the exchange rates are considered (i.e., excluding weekends and public holidays).

Seasonality

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

The availability and price of raw materials required by the Group are also subject to seasonal fluctuation. As a result of the lifecycle of cows and seasonal temperature changes, raw milk production in Ukraine and in Russia peaks during the summer months, typically creating a raw milk surplus and resulting in lower prices, and then falls during the autumn. In the summer, the Group purchases all raw milk when there is a surplus so as to enhance its working relationship with its suppliers. The Group manages this surplus by drying milk in the summer and selling it or using it in its own production during other periods. The Group believes this practice positions it well to obtain supplies during months when raw milk production declines.

The heat wave in Russia and Ukraine during the summer months of 2010 resulted in a decreased supply of, and higher prices for, raw milk. The Group has been able to mitigate the effect of such increase by passing it on to customers though increased prices for its products.

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. In 2009 the Group sourced approximately 55% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclicality and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. While these farms currently account for approximately 1% of the raw milk used by the Group, Management plans to expand the Group's own raw milk supply base in the future.

Ukraine's Relationship with Russia

The Group's business depends heavily on Ukraine's trade flows with Russia and the rest of the CIS. In the year ended 31 December 2009, the Group generated EUR 127.6 million, or approximately 64% of its revenue from the sales of its products in Russia, including EUR 52.4 million from exports of the Group's products to Russia. In the six months ended 30 June 2010, the Group generated EUR 73.4 million, or approximately 61% of its revenue from the sale of its products in Russia.

Relations between Ukraine and Russia have cooled in recent years. In January 2006, Russia introduced a ban on imports of all dairy products from Ukraine due to alleged violation of various veterinary and sanitary standards by Ukrainian dairy producers. Following the introduction of this ban, a number of Ukrainian dairy producers were inspected by the Russian veterinary and phytosanitary authorities and received special permits to export their dairy products into the Russian Federation. Although, the ban was lifted in July 2010, currently, only those Ukrainian dairy producers that passed the attestation with the Russian veterinary and phytosanitary authority, are currently allowed to export their products to the Russian Federation. The Group obtained the necessary permits promptly, and its exports to Russia were interrupted only for three-month period in 2006. Three companies of the Group continue to be able to export cheese to Russia only on the basis of valid permits and certifications issued by the Russian authorities. Upon the regular attestation with the Russian veterinary and Phytosanitary Authority, in October 2010 the export from one of the Ukrainian dairy producers not related to the Group was suspended. There can be no assurance that Russia will not apply such or similar measures in the future. Although following the recent election of President Yanukovych, Ukraine's relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, this may have a negative impact on the Ukrainian economy as a whole and thus on the Group's business, results of operations, financial condition and prospects. See also – *"Risk Factors — Risks Related to the Group — The Group's exports of cheese to Russia may be adversely affected"*.

Macroeconomic Trends in Ukraine and Russia

The Group's operations are based in Ukraine and Russia, and the Group generates essentially all of its sales (96% in the six months ended 30 June 2010) from these countries. As a result, Ukrainian and Russian macroeconomic trends, including the overall decline or growth in the economy and in the markets in which the Group operates, significantly influence its performance.

The table below summarises certain key macroeconomic indicators relating to the Ukrainian and Russian economies during periods under review.

	Year Ended 31 December			Six Months Ended 30 June
	2007	2008	2009	2010
Ukraine (1)				
GDP growth/(decline)	7.9%	2.3%	(15.1%)	6.3%
Consumer price index	16.6%	22.3%	12.3%	3.3%
Producer price index	23.3%	23.0%	14.3%	14.3%
Unemployment rate(3)	6.9%	6.9%	9.6%	9.8%4
Russia (2)				
GDP growth/(decline)	8.1%	5.6%	(7.9%)	4.2%
Consumer price index	11.9%	13.3%	8.8%	4.4%
Producer price index	25.1%	(7.0%)	13.9%	5.5%
Unemployment rate(3)	6.1%	7.8%	8.4%	8.1%

Notes:

(1) Sourced from Derzhkomstat
(2) Sourced from CBR and Rosstat
(3) Calculated under the International Labour Organisation's methodology
(4) Three months ended 31 March 2010

The growth of the Ukrainian and Russian economies between 2000 and 2008 resulted in greater domestic consumption of cheese and dairy products and has also resulted in increases in the costs of raw materials and energy due to greater demand. In 2008 and 2009 the consumption of processed dairy products in Ukraine and Russia decreased slightly by approximately 0.4% and 5.7%, respectively, year-on-year as a result of deterioration of the global economic and financial situation. See also "Industry Overview".

Results of Operations for the Six Months Ended 30 June 2009 and 2010

Revenue

General

Set forth below is an overview of the revenue generated by the Group for the six months ended 30 June 2009 and 2010 by product, indicating the percentage contribution to the Group's consolidated revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Six Months Ended 30 June					
	2009		2010		2010 v 2009	
	Revenue	Percentage of consolidated revenue	Revenue	Percentage of consolidated revenue	Change in revenue	% change in revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*	*(EUR 000's)*	*%*
Cheese	39,666	39.5	56,589	46.7	16,923	42.6
Whole milk products	46,812	46.6	47,866	39.5	1,054	2.3
Butter	6,068	6.0	7,147	5.9	1,079	17.8
Dry milk products	5,143	5.1	6,523	5.4	1,380	26.8
Ice cream	706	0.7	817	0.7	111	15.7
Other	1,988	2.0	2,152	1.8	164	8.2
Total	**100,383**	**100**	**121,094**	**100**	**20,711**	**20.6**

Set forth below is an overview of the revenue generated by the Group for the six months ended 30 June 2009 and 2010 by location of the end customer for its products, indicating the percentage contribution to the Group's consolidated revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Six Months Ended 30 June					
	2009		2010		2010 v 2009	
	Revenue	Percentage of consolidated revenue	Revenue	Percentage of consolidated revenue	Change in revenue	% change in revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*	*(EUR 000's)*	*%*
Russia	64,092	63.8	73,472	60.7	9,380	14.6
Ukraine	31,618	31.5	42,556	35.1	10,938	34.6
Other countries	4,673	4.7	5,066	4.2	393	8.4
Total	**100,383**	**100**	**121,094**	**100**	**20,711**	**20.6**

Revenue from the Sales of Cheese Products

The following table sets forth the sales volumes for, and the revenue from the sales of, the Group's cheese products, as well as the average prices per tonne at which they were sold in local and exports markets in the six months ended 30 June 2009 and 2010 and a comparison of the actual and percentage change between the two periods.

	Six Months Ended 30 June			
			2010 v 2009	
	2009	2010	Change	% Change
Volumes sold, Russia (tonnes)[1]	8,023	8,214	191	2.4%
Volumes sold, Ukraine (tonnes)	5,082	5,139	57	1.1%
Volumes sold, other countries (tonnes)	689	668	(21)	(3%)
Total volumes (tonnes)	**13,794**	**14,021**	**227**	**1.6%**
Price per tonne, Russia (EUR '000s)[1]	3.02	4.22	1.20	39.7%
Price per tonne, Ukraine (EUR '000s)	2.52	3.74	1.22	48.4%
Price per tonne, other countries (EUR '000s)	3.00	4.03	1.03	34.3%
Average price for cheese products per tonne (EUR '000s)	**2.88**	**4.04**	**1.16**	**40.3%**
Revenue from the sale of cheese products, Russia (EUR '000s)	24,778	34,693	9,915	40.0%
Revenue from the sale of cheese products, Ukraine (EUR '000s)	12,819	19,201	6,382	49.8%
Revenue from the sale of cheese products, other countries (EUR '000s)	2,069	2,695	626	30.3%
Total revenue from the sales of cheese products (EUR '000s)	**39,666**	**56,589**	**16,923**	**42.7%**

Note:

(1) Shows information about cheese produced by the Group in Ukraine and sold to third parties located in Russia either through Ostankino or through unrelated third parties.

In the six months ended 30 June 2010, the Group's revenue from the sale of cheese products increased by 42.7% from EUR 39.7 million to EUR 56.6 million as compared to the six months ended 30 June 2009. The increase was primarily due to the increase in prices for cheese products in Russia and Ukraine by 39.7% and 48.4%, respectively, while the volume of cheese products sold during these periods remained relatively stable, increasing by only 1.6%. The average price for the Group's cheese products increased by 40.3% in the six months ended 30 June 2010 as compared to the same period in 2009. This increase in prices was primarily due to the increase in prices for raw milk both in national and world markets.

As a result of these factors, the Group's revenue from the sale of cheese products in Russia and Ukraine in the six months ended 30 June 2010 increased by 40.0% and 49.8%, respectively.

Revenues from the Sale of Whole Milk Products

The Group sells whole milk products, including pasteurized and long life milk, cultured milk products, cottage cheese products and other whole milk products to customers primarily in Ukraine and Russia. The following table sets forth the sales volumes and the revenues from the sale of the Group's whole milk products, as well as the average prices per tonne at which they were sold in local and exports markets in the six months ended 30 June 2009 and 2010 and a comparison of the actual and percentage change between the two periods.

	Six Months Ended 30 June			
			2010 v 2009	
	2009	**2010**	**Change**	**% Change**
Whole milk products				
Volumes sold, Russia (tonnes)	59,407	43,968	(15,439)	(26%)
Volumes sold, Ukraine (tonnes)	19,040	15,814	(3,226)	(16.9%)
Total volumes (tonnes)	**78,447**	**59,782**	**(18,665)**	**(23.8%)**
Price per tonne, Russia (EUR '000s)	0.63	0.84	0.21	33.3%
Price per tonne, Ukraine (EUR '000s)	0.50	0.70	0.20	40.0%
Average price for whole milk products per tonne (EUR '000s)	**0.60**	**0.80**	**0.20**	**33.3%**
Revenue from the sales of whole milk products, Russia (EUR '000s)	37,347	36,808	(539)	(1.4%)
Revenue from the sales of whole milk products, Ukraine (EUR '000s)	9,465	11,058	1,593	16.8%
Total revenues from the sale of whole milk products (EUR '000s)	**46,812**	**47,866**	**1,054**	**2.2%**

In the six months ended 30 June 2010, the average prices across the whole range of the Group's whole milk products (in Euro terms) increased as compared to the same period in 2009 driven primarily by the increase in the prices for raw and dry milk worldwide and the Group rebalancing its whole milk product portfolio in favour of more expensive products. The average prices for whole milk products increased by 33.3% from EUR 600 per tonne in the six months ended 30 June 2009 to EUR 800 per tonne in the six months ended 30 June 2010.

The increase in prices for the Group's whole milk products was partially offset by the decrease in sales volumes for such products by 23.8% from 78,447 tonnes in the six months ended 30 June 2009 to 59,782 tonnes in the six months ended 30 June 2010. This decrease was primarily due to continued stagnation in demand for whole milk products in Ukraine and Russia, and also due to changes in the Group's product portfolio.

As a result of these factors, the Group's revenues from the sales of whole milk products in Russia decreased by 1.4% to EUR 36.8 million in the six months ended 30 June 2010 as compared to EUR 37.3 million in the same period of 2009. The Group's revenue from the sales of whole milk products in Ukraine increased by 16.8% to EUR 11.1 million in the six months ended 30 June 2010 as compared to EUR 9.5 million in the same period of 2009.

Revenues from the Sales of Butter

The following table sets forth the sales volumes for, and the revenue from the sales of, butter by the Group, as well as the average prices per tonne at which they were sold in local and export markets in the six months ended 30 June 2009 and 2010 and a comparison of the actual and percentage change between the two periods.

	Six Months Ended 30 June			
			2010 v 2009	
	2009	**2010**	**Change**	**% Change**
Butter				
Volumes sold, Russia (tonnes)	659	283	(376)	(57.1%)
Volumes sold, Ukraine (tonnes)	2,027	1,753	(274)	(13.5%)
Volumes sold, other countries (tonnes)	—	8	8	—
Total volumes (tonnes)	**2,686**	**2,044**	**(642)**	**(23.9%)**

Price per tonne, Russia (EUR '000s)	2.75	4.55	1.80	65.5%
Price per tonne, Ukraine (EUR '000s)	2.10	3.33	1.23	58.6%
Price per tonne, other countries (EUR '000s)	—	3.26	—	—
Average price for butter products per tonne (EUR '000s)	**2.26**	**3.50**	**1.24**	**54.9%**
Revenue from the sales of butter, Russia (EUR '000s)	1,809	1,289	(520)	(28.7%)
Revenue from the sales of butter, Ukraine (EUR '000s)	4,259	5,832	1,573	36.9%
Revenue from the sales of butter, other countries (EUR '000s)	—	26	26	—
Total revenue from sales of butter (EUR '000s)	**6,068**	**7,147**	**1,079**	**17.8%**

In the six months ended 30 June 2010, the average prices for butter in Euro terms increased as compared to the same period in 2009, driven primarily by the increase in prices for raw and dry milk. The average prices for butter sold by the Group increased by 54.9% from EUR 2,260 per tonne in the six months ended 30 June 2009 to EUR 3,500 per tonne in the same period of 2010. This increase was partially offset by the decrease in sales volume for butter by 642 tonnes or 13.9% in the six months ended 30 June 2010 as compared to the same period in 2009. The decrease was primarily due to the Group's focus on other products. As a result of these factors, the Group's revenue from the sales of butter in Russia decreased by 28.7% to EUR 1.3 million in the six months ended 30 June 2010 as compared to EUR 1.8 million in the same period of 2009. The Group's revenue from the sales of butter in Ukraine increased by 36.9% to EUR 5.8 million in the six months ended 30 June 2010 as compared to EUR 4.3 million in the same period of 2009.

Revenue from the Sales of Dry Milk

The following table sets forth the sales volumes for, and the revenue from the sales of, dry milk, as well as the average prices per tonne at which they were sold in local and exports markets in the six months ended 30 June 2009 and 2010 and a comparison of the actual and percentage change between the two periods.

	Six Months Ended 30 June			
			2010 v 2009	
	2009	**2010**	**Change**	**% Change**
Dry milk				
Volumes sold, Russia (tonnes)	60	—	(60)	—
Volumes sold, Ukraine (tonnes)	4,309	4,617	308	7.1%
Volumes sold, other countries (tonnes)	2,426	3,418	992	40.9%
Total volumes (tonnes)	**6,795**	**8,035**	**1,240**	**18.2%**
Price per tonne, Russia (EUR '000s)	0.32	—	—	—
Price per tonne, Ukraine (EUR '000s)	0.59	0.91	0.32	54.2%
Price per tonne, other countries (EUR '000s)	1.07	0.69	(0.38)	(35.5%)
Average price for dry milk products per tonne (EUR '000s)	**0.76**	**0.81**	**0.05**	**6.5%**
Revenue from the sales of dry milk, Russia (EUR '000s)	19	—	(19)	—
Revenue from the sales of dry milk, Ukraine (EUR '000s)	2,520	4,179	1,659	65.8%
Revenue from the sales of dry milk, other countries (EUR '000s)	2,604	2,344	(260)	(9.9%)
Total revenue from sales for dry milk products (EUR '000s)	**5,143**	**6,523**	**1,380**	**26.8%**

In the six months ended 30 June 2010, the average prices for dry milk increased worldwide as compared to the same period in 2009. As a result, the average prices for dry milk sold by the Group increased by 6.5% from EUR 760 per tonne in the six months ended 30 June 2009 to EUR 810 per tonne in the same period of 2010. The sales volumes for the Group's dry milk products increased by 18.2% to 8,035 tonnes in the six months ended 30 June 2010 following higher demand from local and international markets.

As a result of these factors, the Group's revenue from the sales of dry milk increased by 26.8% to EUR 6.5 million in the six months ended 30 June 2010 as compared to EUR 5.1 million in the same period of 2009.

Revenue from Sales of Ice Cream and Other Products

The Group's revenue from sales of ice cream and other products includes the revenue from sales of ice cream, condensed milk and other milk products. These sales accounted for 2.5% of the Group’s consolidated revenue in the six months ended 30 June 2010 as compared to 2.7% in the same period of 2009.

Segment Reporting Based on Location of the Group's Production Facilities

For the purposes of calculating Adjusted EBITDA, since 2008 the Group also reports its revenue based on the location of its production facilities (see Note 5 to the 2009 Financial Statements). Most of the Group's cheese products sold to end customers in Russia are produced in Ukraine. As a result, under this reporting structure the revenue from the sales of cheese produced in Ukraine is shown as revenue received by the Group's Ukrainian operations. See also – “*Profit Before Tax and Adjusted EBITDA*” below.

Cost of Sales

The Group's consolidated cost of sales increased by 12.3% from EUR 66.8 million in the six months ended 30 June 2009 to EUR 75.0 million in the same period of 2010. The increase was primarily due to the increase in cost of raw materials by 16.1% from EUR 44.2 million in the six months ended 30 June 2009 to EUR 51.3 million in the same period of 2010. The increase in prices for raw milk in Russia and Ukraine was the main factor contributing to the increase in the Group's cost of sales during this period, as it increased on average by 3% in the six months ended 30 June 2010 as compared to the same period in 2009.

In addition, the amount of raw milk sourced by the Group (calculated at 3.4% fat milk equivalent) increased by 5%, from approximately 257.7 thousand tonnes in the six months ended 30 June 2009 to approximately 269.8 thousand tonnes in the six months ended 30 June 2010 primarily due to increase in the production and sales volumes. In the six months ended 30 June 2010, the average price for raw milk was EUR 190 per tonne as compared to EUR 171 per tonne in the same period of 2009.

The following table provides additional information about the Group's cost of sales for the six months ended 30 June 2009 and 2010.

	Six Months Ended 30 June			
	2009		2010	
	Amount	Percentage of consolidated revenue	Amount	Percentage of consolidated revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*
Raw materials	44,203	44.0	51,302	42.4
Other materials	5,039	5.0	4,562	3.8
Wages and salaries	3,969	4.0	3,970	3.3
Deprecation	3,199	3.2	3,885	3.2
Transportation costs	2,834	2.8	3,767	3.1
Gas	3,029	3.0	2,889	2.4
Electricity	1,895	1.9	1,871	1.5
Social insurance contributions	1,273	1.3	1,284	1.1
Repairs of property, plant and equipment	608	0.6	749	0.6
Water	339	0.3	274	0.2
Other	400	0.4	432	0.4
Total	**66,788**	**66.5**	**74,986**	**61.9**

Gross Profit

As a result of the factors discussed above in respect of the Group’s consolidated revenue and cost of sales, the Group’s consolidated gross profit increased by 37.2% to EUR 46.1 million in the six months ended 30 June 2010 from EUR 33.6 million in the same period of 2009. Gross profit margin, calculated as gross profit divided by revenue, increased to 38.1% in the six months ended 30 June 2010 from 33.5% in the same period of 2009 primarily due to the higher rate of growth of prices for all of the Group's products as compared to increase in prices for raw milk.

Government Grants Recognized as Income

The Group's agricultural companies located in Ukraine recognised EUR 251 thousand in government grants in the six months ended 30 June 2010 as compared to EUR 28 thousand in the same period of 2009. The increase of 796.4% was primarily due to the difference in timing for receipt of government grants by the Group in 2009 (when the main portion of the grants was received in the second half of the year) and 2010 (when the main portion of the grants was received in the first half of the year). See also – “*Factors Affecting Results of Operations—State Support for Agricultural Production in Ukraine and Russia”* above for more detail.

Selling and Distribution Expenses

The Group's selling and distribution expenses remained relatively stable increasing by 2.1% to EUR 9.9 million in the six months ended 30 June 2010 as compared to EUR 9.7 million in the same period of 2009. The increase was primarily due to the increase in marketing and advertising costs from EUR 926 thousand in the six months ended 30 June 2009 to EUR 1.4 million in the same period of 2010 as a result of financing promotional campaigns to stimulate sales of the Group's products. Such promotional campaigns were carried out primarily in supermarkets in respect of almost all of the Group's key brands, including Dobryana and Kolyada. The increase in wages and salaries from EUR 1.9 million to EUR 2.2 million due to insignificant increase in the sales personnel headcount to promote sales also contributed to the increase.

These increases were partially offset by the decrease in transportation costs to EUR 4.1 million in the six months ended 30 June 2010 as compared to EUR 4.8 million in the same period of 2009 as a result of the introduction of a more efficient transport loading system at Ostankino which enabled the Group to increase the amount of trading outlets serviced by one truck from 7 outlets in 2009 to 8.2 outlets in 2010.

The following table provides additional information about the Group's selling and distribution expenses for the six months ended 30 June 2009 and 2010.

	Six Months Ended 30 June			
	2009		2010	
	Amount	Percentage of consolidated revenue	Amount	Percentage of consolidated revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*
Transportation costs	4,814	4.8	4,107	3.4
Security and other services	1,215	1.2	1,090	0.9
Marketing and advertising	926	0.9	1,372	1.1
Wages and salaries	1,869	1.9	2,199	1.8
Social insurance contributions	498	0.5	585	0.5
Licence fees	62	0.1	118	0.1
Rental costs	64	0.1	93	0.1
Depreciation and amortisation	33	0	60	0
Other	221	0.2	288	0.2
Total	**9,702**	**9.7**	**9,912**	**8.2**

Selling and distribution expenses increased in absolute terms, while decreasing as a percentage of consolidated revenue to 8.2% in the six months ended 30 June 2010 from 9.7% in the same period of 2009 primarily due to increase in revenues.

Administration Expenses

The Group's administration expenses decreased by 5.6% to EUR 13.1 million in the six months ended 30 June 2010 as compared to EUR 13.9 million in the same period of 2009. Administration expenses as a percentage of consolidated revenue decreased to 10.8% in the six months ended 30 June 2010 as compared to 13.9% in the same period of 2009. The decrease was primarily due to the decreases in representative charges and consulting fees due to a significant amount of consulting fees incurred by the Group in the first half of 2009 to optimise business processes at Ostankino following its acquisition by the Group.

Other Expenses, Net

Other expenses, net increased by 360.1% to EUR 6.0 million in the six months ended 30 June 2010 from EUR 1.3 million in the same period of 2009. The increase was primarily due to increase in provision as a result of significant increase of VAT receivable from EUR 8.6 million in the six months ended 30 June 2009 to EUR 23 million in the same period of 2010.

Finance Income

The Group's finance income comprises primarily interest paid on bank deposits and on trade and other accounts receivable. In the six months ended 30 June 2010, finance income increased to EUR 603 thousand as compared to EUR 82 thousand in the same period of 2009. The increase was primarily due to receipt of interest on a deposit placed with a bank as collateral for a bank loan.

Finance Costs

The Group's finance costs comprise primarily interest paid on bank and other borrowings, as well as on finance leases. In the six months ended 30 June 2010, finance costs decreased by 10.3% to EUR 6.8 million as compared to EUR 7.6 million in the same period of 2009. The decrease was primarily due to decrease in interest paid on bank borrowings and finance leases as a result of decrease in the aggregate amount of borrowings and repayment in June 2009 of finance lease obligations in connection with the acquisition of previously leased refrigerating equipment at Ostankino.

Foreign Exchange Loss, Net

The Group's foreign exchange gain increased by 450.4% from EUR 218 thousand in the six months ended 30 June 2009 to EUR 1.2 million in the same period of 2010 as a result of significant strengthening of Hryvnia against U.S. Dollar and Euro which had a positive effect on the Group's Ukrainian operations as a result of revaluation of loans and borrowings denominated in U.S. Dollars and Euro.

Profit Before Tax and Adjusted EBITDA

For the reasons set out above, the Group's profit before tax increased to EUR 12.3 million in the six months ended 30 June 2010 from EUR 1.4 million in the same period of 2009.

Management assesses the performance of the Group's operating segments based on Adjusted EBITDA. See "Selected Consolidated Financial Information" for reconciliation of Adjusted EBITDA to profit before tax. Adjusted EBITDA increased by 65.6% to EUR 22.0 million (amounting to 18.2% of the Group's consolidated revenue) in the six months ended 30 June 2010 from EUR 13.3 million in the same period of 2009 (amounting to 13.2% of the Group's consolidated revenue). The increase primarily reflects an increase in Adjusted EBITDA in all Ukrainian product segments.

Income Tax (Expense)/Benefit

The Group's income tax expense decreased by 42.2% to EUR 636 thousand in the six months ended 30 June 2010 as compared to EUR 1.1 million in the same period of 2009 primarily due to the decrease of taxable profits at Ostankino from EUR 2.0 million in the first half of 2009 to a loss of EUR 0.5 million in the same period of 2010. Although the Group's consolidated profit before tax increased in the first half of 2010 as compared to the same period of 2009, this increased profit was primarily received by the Group's company Agrosvit which pays FAT. Since FAT is based on the area of land held by a relevant entity which remained unchanged, the increase in profit before tax received by Agrosvit did not result in an increase in income tax expense.

Profit for the Year

For the reasons set out above, the Group's profit for the six months ended 30 June 2010 increased to EUR 11.7 million as compared to EUR 256 thousand in the same period of 2009.

Results of Operations for the Years Ended 31 December 2008 and 2009

Revenue

General

Set forth below is an overview of the revenue generated by the Group for the years ended 31 December 2008 and 2009 by product, indicating the percentage contribution to the Group's consolidated revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Year Ended December 31					
	2008		2009		2009 v 2008	
	Revenue	Percentage of consolidated revenue	Revenue	Percentage of consolidated revenue	Change in revenue	% change in revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*	*(EUR 000's)*	*%*
Cheese	83,881	31.0	87,070	43.5	3,189	4.0
Whole milk products	127,286	47.1	86,687	43.3	(40,599)	(31.9)
Butter	23,095	8.5	12,908	6.5	(10,187)	(44.1)
Dry milk products	29,005	10.7	9,317	4.7	(19,688)	(67.9)
Ice cream	2,317	0.9	1,223	0.6	(1,094)	(47.2)
Other	4,833	1.8	2,803	1.4	(2,030)	(42.0)
Total	**270,417**	**100%**	**200,008**	**100%**	**(70,409)**	**(26.0)**

Set forth below is an overview of the revenue generated by the Group for the years ended 31 December 2008 and 2009 by location of the end customer for its products, indicating the percentage contribution to the Group's consolidated revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Year Ended December 31					
	2008		2009		2009 v 2008	
	Revenue	Percentage of consolidated revenue	Revenue	Percentage of consolidated revenue	Change in revenue	% change in revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*	*(EUR 000's)*	*%*
Russia	147,803	54.7	127,600	63.8	(20,203)	(13.7)
Ukraine	100,297	37.1	62,055	31.0	(38,242)	(38.1)
Other countries	22,317	8.3%	10,353	5.2	(11,964)	(53.6)
Total	**270,417**	**100%**	**200,008**	**100%**	**(70,409)**	**(26.0)**

Revenue from the Sales of Cheese Products

The following table sets forth the sales volumes for, and the revenue from the sales of, the Group's cheese products, as well as the average prices per tonne at which they were sold in local and exports markets in 2008 and 2009 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2009 v 2008	
	2008	2009	Change	% Change
Volumes sold, Russia (tonnes)[1]	10,605	17,412	6,807	64%
Volumes sold, Ukraine (tonnes)	11,644	11,352	(292)	(3%)
Volumes sold, other countries (tonnes)	1,681	1,535	(146)	(9%)
Total volumes (tonnes)	**23,930**	**30,299**	**6,368**	**27%**
Price per tonne, Russia (EUR '000s)[1]	3.73	3.13	(0.60)	(16%)
Price per tonne, Ukraine (EUR '000s)	3.24	2.34	(0.90)	(28%)
Price per tonne, other countries (EUR '000s)	3.88	3.89	0.01	0%
Average price for cheese products per tonne (EUR '000s)	**3.51**	**2.87**	**(0.64)**	**(18%)**
Revenue from the sale of cheese products, Russia (EUR '000s)	39,596	54,515	14,919	38%
Revenue from the sale of cheese products, Ukraine (EUR '000s)	37,767	26,581	(11,186)	(30%)
Revenue from the sale of cheese products, other countries (EUR '000s)	6,518	5,974	(544)	(8%)
Total revenue from the sales of cheese products (EUR '000s)	**83,881**	**87,070**	**3,189**	**4%**

Note:

(1) Shows information about cheese produced by the Group in Ukraine and sold to third parties located in Russia either through Ostankino or through unrelated third parties.

In 2009, the Group's revenue from the sale of cheese products increased by 4% from EUR 83.9 million to EUR 87.1 million. The increase was primarily due to the increase in cheese sale volumes to customers in Russia by 64%, which was partially offset by a decrease in sales volumes to customers in Ukraine and other countries by 3% and 9%, respectively. In aggregate, the volumes of cheese sold increased by 27% from 23,930 tonnes in 2008 to 30,299 tonnes in 2009. This was due to the Group rebalancing its product portfolio in 2009 in favour of cheese products to mitigate the decrease in prices for its whole milk products and dry milk.

The increase in cheese sale volumes was partially offset by the decrease in average prices for cheese sold to the customers in Ukraine (in Euro terms) by 28% from EUR 3,240 per tonne in 2008 to EUR 2,340 per tonne in 2009 primarily as a result of devaluation of Hryvnia and also due to the switch in consumer preferences in Ukraine to cheaper types of cheese in response to general economic downturn. As a result of these factors, revenues from the sale of cheese products in Ukraine decreased by 30% in 2009 as compared to 2008.

The average prices for cheese sold to customers in Russia (in Euro terms) decreased by 16% from EUR 3,730 per tonne in 2008 to EUR 3,130 per tonne in 2009 primarily as a result of devaluation of Rouble. However, the Group's revenues from the sale of cheese products in Russia increased by 38% to EUR 54.5 million in 2009 as compared to EUR 39,6 million in 2008 as a result of the increase in volumes of cheese sold and a switch to more expensive product mix.

Revenues from the Sale of Whole Milk Products

The Group sells whole milk products, including pasteurized and long life milk, cultured milk products, cottage cheese products and other whole milk products to customers primarily in Ukraine and Russia. The following table sets forth the sales volumes and the revenues from the sale of the Group's whole milk products, as well as the average prices per tonne at which they were sold in local and exports markets in 2008 and 2009 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2009 v 2008	
	2008	2009	Change	% Change
Whole milk products				
Volumes sold, Russia (tonnes)	126,714	109,680	(17,034)	(13%)
Volumes sold, Ukraine (tonnes)	49,923	34,817	(15,106)	(30%)
Total volumes (tonnes)	**176,637**	**144,497**	**(32,140)**	**(18%)**
Price per tonne, Russia (EUR '000s)	0.74	0.63	(0.11)	(15%)
Price per tonne, Ukraine (EUR '000s)	0.67	0.49	(0.18)	(26%)
Average price for whole milk products per tonne (EUR '000s)	**0.72**	**0.60**	**(0.12)**	**(17%)**
Revenue from the sales of whole milk products, Russia (EUR '000s)	94,044	69,638	(24,406)	(26%)

Revenue from the sales of whole milk products, Ukraine (EUR '000s)	33,242	17,049	(16,193)	(49%)
Total revenues from the sale of whole milk products (EUR '000s)	**127,286**	**86,687**	**(40,599)**	**(31.9%)**

In 2009, the average prices across the whole range of the Group's whole milk products (in Euro terms) decreased as compared to 2008, driven primarily by the devaluation of Hryvnia and Rouble and the decrease in world prices for dry milk. The average prices for whole milk products decreased by 17% from EUR 720 per tonne in 2008 to EUR 600 per tonne in 2009. In response to this decrease the Group rebalanced its product portfolio to increase the production of cheese. As the production of cheese requires on average seven times more raw milk per tonne of ready product than the Group's whole milk products, this increase in the production of cheese resulted in a more pronounced decrease in sales volumes in the Group's whole milk segment. The sales volumes for the Group's whole milk products decreased by 18% to 144.5 thousand tonnes in 2009 as compared to 176.6 thousand tonnes in 2008.

As a result of these factors, the Group's revenues from the sales of whole milk products in Russia decreased by 26% to EUR 69.6 million in 2009 as compared to EUR 94.0 million in 2008. The Group's revenue from the sales of whole milk products in Ukraine decreased by 49% to EUR 17.0 million in 2009 as compared to EUR 33.2 million in 2008.

Revenues from the Sales of Butter

The following table sets forth the sales volumes for, and the revenue from the sales of, butter by the Group, as well as the average prices per tonne at which they were sold in local and export markets in 2008 and 2009 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2009 v 2008	
	2008	**2009**	**Change**	**% Change**
Butter				
Volumes sold, Russia (tonnes)	1,042	1,066	24	2%
Volumes sold, Ukraine (tonnes)	7,626	4,197	(3,429)	(45%)
Volumes sold, other countries (tonnes)	1,042	—	(1,042)	(100%)
Total volumes (tonnes)	**9,710**	**5,263**	**(4,447)**	**(46%)**
Price per tonne, Russia (EUR '000s)	4.04	3.27	(0.77)	(19%)
Price per tonne, Ukraine (EUR '000s)	2.19	2.25	0.06	2%
Price per tonne, other countries (EUR '000s)	2.07	—	—	—
Average price for butter per tonne (EUR '000s)	**2.38**	**2.45**	**0.07**	**3%**
Revenue from the sales of butter, Russia (EUR '000s)	4,211	3,482	(729)	(17%)
Revenue from the sales of butter, Ukraine (EUR '000s)	16,728	9,426	(7,302)	(44%)
Revenue from the sales of butter, other countries (EUR '000s)	2,155	—	(2,155)	—
Total revenue from sales of butter (EUR '000s)	**23,095**	**12,908**	**(10,187)**	**(44.1%)**

In 2009, the price for butter sold by the Group in Russia in Euro terms decreased by 19% as compared to 2008, driven primarily by devaluation of Rouble and the decrease in world prices for dry milk. In response to this decrease, the Group rebalanced its product portfolio to increase the production of cheese. The sales volumes for butter decreased by 46% to 5,263 tonnes in 2009 as compared to 9,710 tonnes in 2008.

Notwithstanding the devaluation of Hryvnia, the prices for butter sold by the Group in Ukraine grew slightly by 2% in 2009 as compared to 2008, as a result of change in product mix towards packaged butter. The average prices for butter sold by the Group increased by 3% from EUR 2,380 per tonne in 2008 to EUR 2,450 per tonne in 2009.

As a result of these factors, the Group's revenue from the sales of butter in Russia decreased by 17% to EUR 3.5 million in 2009 as compared to EUR 4.2 million in 2008. The Group's revenue from the sales of butter in Ukraine decreased by 44% to EUR 9.4 million in 2009 as compared to EUR 16.7 million in 2008.

Revenue from the Sales of Dry Milk

The following table sets forth the sales volumes for, and the revenue from the sales of, dry milk, as well as the average prices per tonne at which they were sold in local and exports markets in 2008 and 2009 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2009 v 2008	
	2008	**2009**	**Change**	**% Change**
Dry milk				
Volumes sold, Russia (tonnes)	5,270	60	(5,210)	(99%)
Volumes sold, Ukraine (tonnes)	6,401	8,803	2,402	38%
Volumes sold, other countries (tonnes)	10,494	6,125	(4,369)	(42%)
Total volumes (tonnes)	**22,165**	**14,988**	**(7,177)**	**(32%)**

Price per tonne, Russia (EUR '000s)	1.80	0.30	(1.50)	(83%)
Price per tonne, Ukraine (EUR '000s)	0.92	0.58	(0.35)	(38%)
Price per tonne, other countries (EUR '000s)	1.30	0.69	(0.61)	(47%)
Average price for dry milk products per tonne (EUR '000s)	**1.31**	**0.62**	**(0.69)**	**(52%)**
Revenue from the sales of dry milk, Russia (EUR '000s)	9,484	18	(9,466)	(100%)
Revenue from the sales of dry milk, Ukraine (EUR '000s)	5,900	5,073	(827)	(14%)
Revenue from the sales of dry milk, other countries (EUR '000s)	13,621	4,226	(9,396)	(69%)
Total revenue from sales for dry milk products (EUR '000s)	**29,005**	**9,317**	**(19,688)**	**(68%)**

In 2009, the average prices for dry milk decreased worldwide as compared to 2008. In addition, the prices for dry milk sold by the Group decreased in Euro terms due to devaluation of Hryvnia. The average prices for dry milk sold by the Group decreased by 52% from EUR 1,310 per tonne in 2008 to EUR 620 per tonne in 2009. In response to this decrease, the Group stopped production of whole milk powder, while skimmed powder and dry whey were produced in line with butter and cheese volumes, respectively, as these products are connected in the production process. In addition, the Russian Federation imposed a ban on Ukrainian dry milk products. The sales volumes for the Group's dry milk products decreased by 32% to 14,988 tonnes in 2009 as compared to 22,164 tonnes in 2008.

As a result of these factors, the Group's revenues from dry milk product sales decreased by 68% from EUR 29.0 million to EUR 9.3 million. The major decline occurred in Russia, following the ban. Exports to other countries decreased by 69% to EUR 4.2 million, while revenues from sales in Ukraine diminished moderately by 14%, to EUR 5.1 million.

Revenue from Sales of Ice Cream and Other Products

The Group's revenue from sales of ice cream and other products includes the revenue from sales of ice cream, condensed milk and other milk products. These sales accounted for 2.0% of the Group's consolidated revenue in 2009 as compared to 2.6% in 2008 primarily as a result of the Group discontinuing juice production at Ostankino at the end of 2008.

Segment Reporting Based on Location of the Group's Production Facilities

For the purposes of calculating Adjusted EBITDA, since 2008 the Group has also reports its revenue based on the location of its production facilities (see Note 5 to the 2009 Financial Statements). Most of the Group's cheese products sold to end customers in Russia are produced in Ukraine. As a result, under this reporting structure the revenue from the sales of cheese produced in Ukraine is shown as revenue received by the Group's Ukrainian operations. See also – "*Profit Before Tax and Adjusted EBITDA*" below.

Cost of Sales

The Group's consolidated cost of sales decreased by 30.7% from EUR 187.5 million in 2008 to EUR 130.0 million in 2009. The decrease was primarily due to the decrease in cost of raw materials by 34.6% from EUR 124.1 million in 2008 to EUR 81.2 million in 2009. The price decrease for raw milk (in Euro terms) as a result of the devaluation of Hryvnia and Rouble, was the main factor contributing to the decrease in the Group's cost of sales during this period, as it decreased on average by 25% in 2009 as compared to 2008.

In addition, the amount of raw milk sourced by the Group (calculated at 3.4% fat milk equivalent and excluding certain insignificant purchases of raw milk by Ostankino) decreased by 14.9%, from approximately 646 thousand tonnes in 2008 to approximately 550 thousand tonnes in 2009 due to decrease in production of whole milk products by the Group as a result of decrease in prices for dry milk. In 2009, the average price for raw milk was EUR 148 per tonne as compared to EUR 192 per tonne in 2008.

The following table provides additional information about the Group's cost of sales for 2008 and 2009.

	Year Ended 31 December			
	2008		2009	
	Amount	Percentage of consolidated revenue	Amount	Percentage of consolidated revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*
Raw materials	124,149	45.9	81,151	40.6
Other materials	13,083	4.8	8,904	4.5
Wages and salaries	9,448	3.5	7,883	3.9
Deprecation	7,952	2.9	6,405	3.2
Transportation costs	6,715	2.5	5,810	2.9
Gas	5,351	2.0	5,457	2.7
Electricity	4,338	1.6	3,687	1.8
Social insurance and state pension plan contributions	3,088	1.1	2,497	1.2

Repairs of property, plant and equipment	1,374	0.5	1,215	0.6
Cost of sold materials	1,707	0.6	1,179	0.6
Water	915	0.3	847	0.4
Other	9,411	3.5	4,940	2.5
Total	**187,531**	**69.3**	**129,975**	**65.0**

Gross Profit

As a result of the factors discussed above in respect of the Group's consolidated revenue and cost of sales, the Group's consolidated gross profit decreased by 15.5% to EUR 70.0 million in 2009 from EUR 82.9 million in 2008. Gross profit margin, calculated as gross profit divided by revenue, increased to 35.0% in 2009 from 30.7% primarily due to the changes in the Group product portfolio which resulted in an increase in sales of premium value added types of cheeses in Russia, decrease in prices for raw milk and implementation of certain operational improvements, including introduction of cost-saving nanofiltration technologies.

Government Grants Recognised as Income

The Group's agricultural companies located in Ukraine recognised EUR 339 thousand in government grants in 2009 as compared to EUR 389 thousand in 2008. The decrease of 12.9% was primarily due to the decrease in price of raw milk produced by the Group's farms in Euro terms as a result of the devaluation of Hryvnia. See also – "*Factors Affecting Results of Operations—State Support for Agricultural Production in Ukraine and Russia*" above for more detail.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 8.0% to EUR 18.7 million in 2009 as compared to EUR 20.3 million in 2008. The decrease was primarily due to the decrease in transportation costs to EUR 9.1 million in 2009 as compared to EUR 11.3 million in 2008 as a result of a decrease in the cost of fuel used by the Group's own trucks for transportation of its products and a decrease in sales volumes.

The following table provides additional information about the Group's selling and distribution expenses for 2008 and 2009.

	Year Ended 31 December			
	2008		2009	
	Amount	Percentage of consolidated revenue	Amount	Percentage of consolidated revenue
	(EUR 000's)	*%*	*(EUR 000's)*	*%*
Transportation costs	11,314	4.2	9,108	4.6
Security and other services	1,647	0.6	2,136	1.1
Marketing and advertising	1,669	0.6	1,918	0.7
Wages and salaries	3,972	1.5	3,816	1.9
Social insurance and state pension plan contributions	984	0.4	923	0.5
Licence fees	88	0.0	143	0.1
Rental costs	135	0.0	131	0.1
Depreciation and amortisation	61	0.0	90	0
Other	439	0.2	422	0.2
Total	**20,309**	**7.5**	**18,687**	**9.3**

Selling and distribution expenses decreased in absolute terms, while increasing as a percentage of consolidated revenue to 9.3% in 2009 from 7.5% in 2008 primarily due to decrease in revenues.

Administration Expenses

The Group's administration expenses decreased by 33.9% to EUR 26.3 million in 2009 as compared to EUR 39.7 million in 2008. Administration expenses as a percentage of consolidated revenue decreased to 13.1% in 2009 as compared to 14.7% in 2008. The decrease was primarily due to the decrease in wages, salaries and related payroll contributions (in Euro terms) as a result of the devaluation of Hryvnia and Rouble and due to a redundancy payment to one of Ostankino's directors in 2008. The decrease in the cost of utilities and in representative charges also contributed to the decrease in administration expenses.

Other Expenses, Net

Other expenses, net decreased by 45.7% to EUR 3.2 million in 2009 from EUR 5.9 million in 2008. The decrease was primarily due to a gain of EUR 23 thousand on the disposal of non-current assets in 2009 as compared to a loss of EUR 779 thousand in 2008 due to a write-off of outdated non-current assets. In addition, the amount of penalties paid by the Group decreased to EUR 154 thousand in 2009 as compared to EUR 530 thousand in 2008 due to the higher level of penalties paid by the Group to the Ukrainian and Russian tax authorities in 2008. A decrease in write-off of trade and other account receivable from EUR 1.3 million in 2008 to EUR 275 thousand in 2009 due to the improvements in recovery of accounts receivable also contributed to the decrease of other expenses, net. In addition, in 2008, the Group had a loss of EUR 1.2 million from write-off of non-existent inventory which had accumulated at Ostankino since 2005, as compared to a loss of EUR 423 thousand in 2009.

Finance Income

The Group's finance income comprises primarily interest paid on bank deposits and on trade and other accounts receivable. In 2009, finance income increased to EUR 853 thousand as compared to EUR 31 thousand in 2008. The increase was primarily due to receipt of interest on a deposit placed with a bank as a collateral for a bank loan. In 2009, the Group also received interest on trade and other accounts receivable from a related party of EUR 423 thousand.

Finance Costs

The Group's finance costs comprise primarily interest paid on bank and other borrowings, as well as on finance leases. In 2009, finance costs decreased by 5.8% to EUR 14.2 million as compared to EUR 15.1 million in 2008. The decrease was primarily due to decrease in interest paid on bank borrowings and finance leases as a result of decrease in the aggregate amount of borrowings and repayment in June 2009 of finance lease obligations in connection with the acquisition of previously leased refrigerating equipment at Ostankino.

Foreign Exchange Loss, Net

The Group incurred foreign exchange loss due both in 2008 and 2009 due to devaluation of Hryvnia against major currencies. The Group's foreign exchange loss decreased to EUR 948 thousand in 2009 as compared to EUR 15.9 million in 2008 as a result of the foreign currency loan exposure of the Group's Ukrainian companies.

Profit Before Tax and Adjusted EBITDA

For the reasons set out above, the Group's profit before tax increased to a profit of EUR 7.9 million in 2009 as compared to a loss of EUR 13.5 million in 2008.

Management assesses the performance of the Group's operating segments based on Adjusted EBITDA. See "Selected Consolidated Financial Information" for reconciliation of Adjusted EBITDA to profit before tax. Adjusted EBITDA increased by 9.8% to EUR 32.5 million (amounting to 16.3% of the Group's consolidated revenue) in 2009 from EUR 29.7 million in 2008 (amounting to 11.0% of the Group's consolidated revenue). The increase primarily reflects an increase in Adjusted EBITDA in the Ukrainian cheese segment and a decrease in depreciation and amortisation expenses as a result of devaluation of Hryvnia.

Income Tax (Expense)/Benefit

The Group had an income tax benefit of EUR 245 thousand in 2009 as compared to income tax expense of EUR 2.5 million in 2008. This change primarily resulted from operating losses incurred by Ukrainian companies within the Group due to the profits being primarily received in 2009 by those Ukrainian companies within the Group which are taxed at more beneficial single agricultural tax rate and by Milkiland Corporation. The Group created a provision in respect of irrecoverable income tax assets.

Profit for the Year

For the reasons set out above, the Group's profit for the year was EUR 8.2 million in 2009 as compared to a loss for the year of EUR 16.0 million in 2008.

Gain Realised from Acquisitions

In 2008 upon the restructuring, the Group realised a gain of EUR 23.4 million from the acquisition of Milkiland Ukraine by the Issuer as a result of the difference between acquisition price and fair value of assets acquired.

Net Profit for the Year

For the reasons set out above, the Group's net profit for the year increased to EUR 8.2 million in 2009 from EUR 7.4 million in 2008.

Revaluation of Property, Plant and Equipment

Following devaluation of Hryvnia against U.S. Dollar and Euro in 2008, the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value as at 31 December 2008 and 2009 was determined with a reference to depreciated replacement cost or market based evidence, in accordance with International Valuation Standards. As a result of revaluation, a revaluation surplus of EUR32.8 million and EUR 20.4 million was recorded in the years ended 31 December 2008 and 2009, respectively.

Results of Operations for the Years Ended 31 December 2007 and 2008

Revenue

General

Set forth below is an overview of the revenue generated by the Group for the years ended 31 December 2007 and 2008 by product, indicating the percentage contribution to the Group's revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Year Ended December 31					
	2007		**2008**		**2008 v 2007**	
	Revenue	**Percentage of combined revenue**	**Revenue**	**Percentage of consolidated revenue**	**Change in revenue**	**% change in revenue**
	(EUR 000's)	*%*	***(EUR 000's)***	*%*	***(EUR 000's)***	*%*
Cheese	73,300	44.4	83,881	31.0	10,581	14.4
Whole milk products	24,079	14.6	127,286	47.1	103,207	428.6
Butter	14,377	8.7	23,095	8.5	8,718	60.6
Dry milk products	47,089	28.5	29,005	10.7	(18,084)	(38.4)
Other	6,094	3.7	7,150	2.7	1,056	17.3
Total	**164,939**	**100**	**270,417**	**100**	**105,478**	**63.9**

Set forth below is an overview of the revenue generated by the Group for the years ended 31 December 2007 and 2008 by location of the end customer for its products, indicating the percentage contribution to the Group's revenue for the relevant year and a comparison of the actual and percentage change between the two periods.

	For the Year Ended December 31					
	2007		**2008**		**2008 v 2007**	
	Revenue	**Percentage of combined revenue**	**Revenue**	**Percentage of consolidated revenue**	**Change in revenue**	**% change in revenue**
	(EUR 000's)	*%*	***(EUR 000's)***	*%*	***(EUR 000's)***	*%*
Russia	47,640	28.9	147,803	54.7	100,163	210.2
Ukraine	85,728	52.0	100,297	37.1	14,569	17.0
Other countries	31,571	19.1	22,317	8.3%	(9,254)	(29.3)
Total	**164,939**	**100**	**270,417**	**100%**	**105,478**	**63.9**

Revenue from the Sales of Cheese Products

The following table sets forth the sales volumes for, and the revenue from the sales of, the Group's cheese products, as well as the average prices per tonne at which they were sold in local and exports markets in 2007 and 2008 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2008 v 2007	
	2007	**2008**	**Change**	**% Change**
Volumes sold, Russia (tonnes)[1]	10,735	10,605	(130)	(1.2)
Volumes sold, Ukraine (tonnes)	10,947	11,644	697	6.4
Volumes sold, other countries (tonnes)	1,861	1,681	(180)	(9.7)
Total volumes (tonnes)	**23,543**	**23,930**	**387**	**1.6**
Price per tonne, Russia (EUR '000s)[1]	3.21	3.77	0.56	17.5
Price per tonne, Ukraine (EUR '000s)	2.99	3.24	0.25	8.4
Price per tonne, other countries (EUR '000s)	3.28	3.88	0.6	18.3
Average price for cheese products per tonne (EUR '000s)	**3.11**	**3.51**	**0.40**	**12.9**
Revenue from the sale of cheese products, Russia (EUR '000s)	34,460	39,596	5,136	14.9
Revenue from the sale of cheese products, Ukraine (EUR '000s)	32,734	37,767	5,033	15.4
Revenue from the sale of cheese products, other	6,106	6,518	412	6.8

countries (EUR '000s)..				
Total revenue from the sales of cheese products (EUR '000s)..	**73,300**	**83,881**	**10,581**	**14.4**

Note:

(1) Shows information about cheese produced by the Group in Ukraine and sold to third parties located in Russia either through Ostankino (starting from 2008) or through unrelated third parties.

In 2008, the Group's revenue from the sale of cheese products increased by 14.4% to EUR 83.9 million from EUR 73.3 million in 2007. The increase was primarily due to the increase in average prices for cheese products by 12.9% from EUR 3,110 per tonne in 2007 to EUR 3,510 per tonne in 2008 as a result of improving product mix and a higher share of more expensive cheese.

In 2008, the volumes of cheese products sold to customers in Russia and other countries decreased by 1.2% and 9.7%, respectively, primarily due to the Group terminating its relationships with some of its export dealers for several months in autumn 2008 to reduce the risk of non-payment for the Group's products as a result of global financial crisis. The Group's volume sales in Ukraine were less affected and grew by 6.4% compared to 2007, to 11.6 thousand tonnes.

As a result of these factors, revenues from the sale of cheese products in Russia , Ukraine and other countries increased by 14.9%, 15.4% and 6.8%, respectively in 2008 as compared to 2007.

Revenues from the Sale of Whole Milk Products

In 2007, the Group sold whole milk products, including pasteurized and long life milk, cultured milk products, cottage cheese products and other whole milk products to customers in Ukraine. Following the acquisition of Ostankino in 2008, the Group commenced the sales of whole milk products in the Russian market. The following table sets forth the sales volumes and the revenues from the sale of the Group's whole milk products, as well as the average prices per tonne at which they were sold in 2007 and 2008 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2008 v 2007	
	2007	**2008**	**Change**	**% Change**
Whole milk products				
Volumes sold, Russia (tonnes)..	—	126,714	126,714	—
Volumes sold, Ukraine (tonnes)..	39,700	49,923	10,223	25.8
Total volumes (tonnes)..	**39,700**	**176,637**	**136,937**	**345%**
Price per tonne, Russia (EUR '000s)..	—	0.74	—	—
Price per tonne, Ukraine (EUR '000s)..	0.61	0.67	0.06	9.8
Average price for whole milk products per tonne (EUR '000s)..................	**0.61**	**0.72**	**0.11**	**18.0**
Revenue from the sales of whole milk products, Russia (EUR '000s)....................	—	94,044	94,044	100
Revenue from the sales of whole milk products, Ukraine (EUR '000s)	24,079	33,242	9,163	38.1
Total revenues from the sale of whole milk products (EUR '000s)	**24,079**	**127,286**	**103,207**	**428.6**

The Group's revenue from the sales of whole milk products increased by 428.6% to EUR 127.3 million in 2008 from EUR 24.1 million in 2007 primarily as a result of acquisition of Ostankino in 2008 and resulting sales of whole milk products in the Russian market which generated a revenue of EUR 94.0 million in 2008.

The growth in sales volume of whole milk products in Ukraine increased by 25.8% mainly as a result of the acquisition of First Kyiv Dairy Plant and Chernigiv Dairy Plant at the end of 2007. In addition, in 2008 the prices for whole milk products sold in Ukraine increased by 9.8% from EUR 610 per tonne to EUR 670 per tonne, primarily due to increased prices for raw milk. As a result of these factors, the Group's revenues from the sales of whole milk products in Ukraine increased by 38.1% to EUR 33.2 million in 2008 as compared to EUR 24.1 million in 2007.

Revenues from the Sales of Butter

The following table sets forth the sales volumes for, and the revenue from the sales of, butter by the Group, as well as the average prices per tonne at which they were sold in local and export markets in 2007 and 2009 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2008 v 2007	
	2007	**2008**	**Change**	**% Change**
Butter				
Volumes sold, Russia (tonnes)..	—	1,042	1,042	—

Volumes sold, Ukraine (tonnes)	7,624	7,626	2	0
Volumes sold, other countries (tonnes)	345	1,042	697	202.0
Total volumes (tonnes)*	**7,969**	**9,710**	**1,741**	**21.8**
Price per tonne, Russia (EUR '000s)	—	4.04	—	—
Price per tonne, Ukraine (EUR '000s)	1.77	2.19	0.42	23.7
Price per tonne, other countries (EUR '000s)	2.63	2.07	(0.56)	(21.3)
Average price for butter per tonne (EUR '000s)	**1.80**	**2.38**	**0.58**	**32.2**
Revenue from the sales of butter, Russia (EUR '000s)	—	4,211	4,211	—
Revenue from the sales of butter, Ukraine (EUR '000s)	13,473	16,728	3,256	24.2
Revenue from the sales of butter, other countries (EUR '000s)	904	2,155	1,251	138.3
Total revenue from sales of butter (EUR '000s)	**14,377**	**23,095**	**8,718**	**60.6**

The prices for butter sold by the Group in Ukraine increased by 23.7% in 2008 as compared to 2007. The average prices for butter sold by the Group increased by 31.8% as compared to 2007, driven primarily by commencement of sales of butter in Russia, as a result of the acquisition of Ostankino in 2008. The Group derived EUR 4.2 million from such sales. Butter exports from Ukraine also increased significantly in 2008, due to several large contracts concluded.

As a result of these factors, the Group's revenue from the sales of butter increased by 60.6% to EUR 23.1 million in 2008 as compared to EUR 14.4 million in 2007.

Revenue from the Sales of Dry Milk

The following table sets forth the sales volumes for, and the revenue from the sales of, dry milk, as well as the average prices per tonne at which they were sold in local and exports markets in 2007 and 2008 and a comparison of the actual and percentage change between the two periods.

	Year Ended 31 December			
			2008 v 2007	
	2007	**2008**	**Change**	**% Change**
Dry milk				
Volumes sold, Russia (tonnes)	5,966	5,270	(696)	(11.7)
Volumes sold, Ukraine (tonnes)	6,731	6,401	(330)	(4.9)
Volumes sold, other countries (tonnes)	12,603	10,494	(2,109)	(16.7)
Total volumes (tonnes)	**25,300**	**22,164**	**(3,136)**	**(12.4)**
Price per tonne, Russia (EUR '000s)	2.21	1.80	(0.41)	(18.5)
Price per tonne, Ukraine (EUR '000s)	1.39	0.92	(0.47)	(33.8)
Price per tonne, other countries (EUR '000s)	1.95	1.30	(0.65)	(33.3)
Average price for dry milk products per tonne (EUR '000s)	**1.86**	**1.31**	**(0.55)**	**(29.6)**
Revenue from the sales of dry milk, Russia (EUR '000s)	13,180	9,484	(3,696)	(28.0)
Revenue from the sales of dry milk, Ukraine (EUR '000s)	9,348	5,900	(3,448)	(36.9)
Revenue from the sales of dry milk, other countries (EUR '000s)	24,561	13,621	(10,940)	(44.5)
Total revenue from sales for dry milk products (EUR '000s)	**47,089**	**29,005**	**(18,084)**	**(38.4)**

In 2008, the average prices for dry milk decreased worldwide as compared to 2007. The average prices for dry milk sold by the Group decreased by 29.6% from EUR 1,860 per tonne in 2007 to EUR 1,310 per tonne in 2008. Sales volumes in Russia, Ukraine and other countries fell by 28.0%, 36.9% and 44.5%,, respectively, as compared to 2007, following prices decrease and slowdown in demand. As a result of these factors, the Group's revenues from sales of dry milk in 2008 decreased by 38% to EUR 29 million, as compared to 2007.

Revenue from Sales of Ice Cream and Other Products

The Group's revenue from sales of ice cream and other products includes the revenue from sales of ice cream, condensed milk and other milk products. These sales accounted for 2.7% of the Group's consolidated revenue in 2008 as compared to 3.7% in 2007 primarily as a result of the Ostankino acquisition with a lower portion of sales of other products.

Cost of Sales

The Group's cost of sales increased by 73.8% from EUR 107.9 million in 2007 to EUR 187.5 million in 2008. The increase was primarily due to the acquisition of Ostankino in 2008.

As a result of the acquisition of Ostankino the amount of raw milk sourced by the Group (calculated at 3.4% fat milk equivalent and excluding certain insignificant purchases of raw milk by Ostankino) increased by 28.9%, from approximately 501 thousand tonnes in 2007 to approximately 646 thousand tonnes in 2008.

The price for raw milk sourced by the Group significantly increased in 2008 as compared to 2007, driven primarily by increased raw milk prices in Ukraine and the acquisition of Ostankino, which paid more for raw milk sourced by it as compared to the rest of the Group.

The following table provides additional information about the Group's cost of sales by product for 2007.

	Year Ended 31 December 2007	
Product	**Amount**	**Percentage of consolidated revenue**
	(EUR 000's)	*%*
Cheese	46,763	43.3
Whole milk products	15,988	14.8
Butter	12,098	11.2
Dry milk	23,376	21.7
Other products	9,686	9.0
Total	**107,911**	**100**

Gross Profit

As a result of the factors discussed above in respect of the Group's consolidated revenue and cost of sales, the Group's gross profit increased by 45.4% to EUR 82.9 million in 2008 from EUR 57.0 million in 2007. Gross profit margin, calculated as gross profit divided by revenue, decreased to 30.7% in 2008 from 34.5% primarily due to a lower gross profit margin in Ostankino.

Government Grants Recognised as Income

The Group's agricultural companies located in Ukraine recognised EUR 389 thousand in 2008 as compared to EUR 284 thousand in government grants in 2007. The increase of 37.0% was primarily due to the acquisition of Iskra and Moloko Polissya farms.

Selling, General and Administrative Expenses

The Group's selling, general and administrative expenses increased by 65.6% to EUR 60.1 million in 2008 as compared to EUR 36.3 million in 2007 primarily as a result of the acquisition of Ostankino.

The following table provides information about principal components of the Group's selling, general and administrative expenses for 2007.

	Year Ended 31 December 2007	
Product	**Amount**	**Percentage of consolidated revenue**
	(EUR 000's)	*%*
Wages and salaries	6,389	17.6
Depreciation	5,729	15.8
Representative charges	5,463	15.1
Doubtful debts	4,294	11.8
Utilities	2,627	7.2
Property, plant and equipment rent	2,507	6.9
Taxes and other charges	2,305	6.4
Marketing and advertising	2,167	6.0
Other	4,798	13.2
Total	36,279	**100**

Selling, general and administrative expenses increased in absolute terms, while remaining stable as a percentage of consolidated revenue at 22.2% in 2008 as compared to 22.0% in 2007.

Interest Income

The Group's interest income in 2007 comprised primarily interest received on bank deposits. In 2008, interest income decreased to EUR 31.0 thousand as compared to EUR 44.0 thousand in 2007.

Interest Expenses

The Group's interest costs comprise primarily interest paid on bank and other borrowings, as well as on finance leases. In 2008, finance costs increased by 125.4 % to EUR 15.1 million as compared to EUR 6.7 million in 2007. The increase was primarily due to the increase in interest paid on bank borrowings and finance leases as a result of an increase in the aggregate amount of borrowings incurred to finance the acquisitions of Ostankino in 2008 and the acquisitions of Transportnyk, First Kyiv Dairy Plant, Chernigiv Dairy Plant, Gorodnyansky Butter Plant and Iskra in 2007.

Non-Operating Expenses

The Group incurred EUR 98.0 thousand in non-operating expenses in 2007, which was comprised primarily of write-offs of bad debts in the amount of EUR 82 thousand and other income and expenses that were not included in any other line of the income statement.

Other Income

The Group realised EUR 232.0 thousand in other income in 2007, which was comprised primarily of other profits from financial operations at the amount of EUR 169 thousand.

Profit Before Tax

For the reasons set out above, the Group's had profit before tax of EUR 13.8 million in 2007 as compared to a loss of EUR 13.5 million in 2008.

Income Tax Expense

The Group had income tax expense increased from EUR 1.5 million in 2007 to EUR 2.5 million in 2008 primarily as a result of the acquisition of Ostankino.

Profit for the Year

For the reasons set out above, the Group's profit for the year was EUR 12.3 million in 2007 as compared to a loss (before gain realised from acquisitions) for the year of EUR 16.0 million in 2008.

Liquidity and Capital Resources

Liquidity

The Group's liquidity needs arise primarily from the need to finance existing operations and capital expenditure. In the periods covered by this financial review, the Group has been able to meet most of its liquidity needs from cash flows from operating activities, bank borrowings and borrowings from related parties.

Cash Flows

The following table sets forth certain information relating to the Group's cash flows for the periods indicated.

	Year Ended 31 December			Six Months Ended 30 June	
	2007	2008	2009	2009	2010
			(Thousands Euro)		
Net cash from operating activity	16,362	3,492	8,724	4,566	6,374
Net cash from investment activity	(31,746)	(32,781)	(2,045)	(812)	(2,514)
Net cash from financial activity	39,853	8,062	(2,918)	(5,198)	(3,697)
Net increase/(decrease) in cash	24,087	(21,990)	3,495	(1,470)	1,334

Six Months Ended 30 June 2009 and 2010

Net cash from operating activity increased to EUR 6.4 million in the six months ended 30 June 2010 as compared to EUR 4.6 million in the same period of 2009. The increase was primarily due to an increase in the Group's profit before income tax from EUR 1.4 million in the six months ended 30 June 2009 to EUR 12.3 million in the same period of 2010, which was partially offset by a significant increase in other taxes receivable (in particular, exports VAT refunds) during the first half of 2010.

Net cash used in investment activity increased to EUR 2.5 million in the six months ended 30 June 2010 as compared to EUR 812 thousand in the same period of 2009 primarily due to the acquisitions of agricultural equipment for the Group's farms and of minority interest in Ostankino in the first half of 2010.

The Group used EUR 3.7 million in financing activities in the six months ended 30 June 2010 as compared to EUR 5.2 million used in the same period of 2009. The decrease was primarily due to the repayment of EUR 17 million due under the loans from JSC Ukreximbank, which was replaced by the loans from related party LLC Eurobudcom on similar terms. See "*Related Party Transactions — Financing Arrangements*". The Group also partially repaid the short-term loan due to Moscow Industrial Bank.

Year Ended 31 December 2008 and 2009

Net cash from operating activity increased to EUR 8.7 million in 2009 as compared to EUR 3.5 million in 2008. The increase was primarily due to the increase in Adjusted EBITDA by EUR 3.0 million and a significant decrease in accounts payable in 2008and an increase in other taxes receivable (in particular, exports VAT refunds).

Net cash used in investment activity decreased to EUR 2.0 million in 2009 as compared to EUR 32.8 million in 2008 as no acquisition were made in 2009.

The Group used EUR 2.9 million in financing activities in 2009 as compared to EUR 8.1 million generated in 2008. Net cash from financing activities was lower in 2009 primarily due to decrease in borrowings and leases from EUR 99.1 million in 2008 to EUR 92.9 million in 2009.

Year Ended 31 December 2007 and 2008

Net cash from operating activity decreased to EUR 3.5 million in 2008 as compared to EUR 13,9 million in 2007. The decrease was primarily due to a decrease in operating profit to EUR 17.4 million in 2008 as compared to EUR 21 million in 2007 and an increase in interest paid from EUR 6.6 million in 2007 to EUR 13.6 million in 2008 as a result of costs incurred by the Group associated with acquisitions made by it during the course of 2007 and 2008.

Net cash used in investment activity slightly increased to EUR 32.8 million in 2008 as compared to EUR 31.7 million in 2007 primarily due to the acquisition of Ostankino in 2008. During 2007, the Group also made several acquisitions, including Transportnyk, First Kyiv Dairy Plant, Chernigiv Dairy Plant, Gorodnyansky Butter Plant and Iskra.

The Group generated EUR 8.1 million in financing activities in 2008 as compared to EUR 42,4 million generated in 2007. Net cash generated from financing activities was lower in 2008 primarily due to borrowings by the Group used to finance its acquisitions.

Borrowings

The following table sets forth certain information relating to the Group's borrowings (including finance leases):

	Year Ended 31 December		**Six Months Ended 30 June**
	2008	**2009**	**2010**
		(Thousands Euro)	
Current			
Interest bearing loans due to banks	55,561	29,695	40,034
Loans from non-financial institutions	10,045	1,291	2,524
Bank overdrafts	2,466	—	1,440
Finance leases	607	—	150
Total current borrowings	**68,679**	**30,986**	**44,148**
Non-current			
Interest bearing loans due to banks	30,443	52,747	36,725
Loans from non-financial institutions	—	9,202	22,499
Finance leases	—	—	300
Total non-current borrowings	**30,443**	**61,949**	**59,524**
Total borrowings	**99,122**	**92,935**	**103,672**

The following table sets forth the weighted average effective interest rates, maturity profile and currency denominations of the Group's loans and borrowings as at the dates indicated:

	As at 31 December									
	2008					**2009**				
	U.S.$	**EUR**	**UAH**	**RUR**	**Total**	**U.S.$**	**EUR**	**UAH**	**RUR**	**Total**
12 months or less										
Outstanding balance, thousand EUR	38,938	489	15,120	14,133	**68,679**	4,714	1,488	8,305	16,479	**30,986**
Average interest rate, %	11.84	12.46	20.83	19.77	**14.34**	12.35	14.23	22.25	16.16	**18.21**
1-5 years										
Outstanding balance, thousand EUR	25,065	2,027	962	2,389	**30,443**	51,903	652	4,983	4,411	**61,949**
Average interest rate, %	10.64	14.23	19.63	4.5	**11.21**	10.5	12.46	16.75	3.5	**11.07**

As of 30 June 2010 and as of the date of this Prospectus, the Group did not have any material unused sources of liquidity.

Capital Expenditures and Investments

The Group spent EUR 31.8million, EUR 32.8 million, EUR 2.0 million and EUR 2.5 million on acquisitions and purchases of property, plant and equipment in 2007, 2008, 2009 and the six months ended 30 June 2010. During these periods, the Group's principal capital expenditure projects and investments included:

- construction of the new cheese department at Mena Cheese plant (located in the Chernigiv region of Ukraine) in 2007 and 2008;
- acquisition of headquarter building in Kyiv (JSC "Transportnyk") in March 2007;
- acquisition of Iskra raw milk production farm (located in the Sumy region of Ukraine) in 2007;
- acquisition of First Kyiv Dairy Plant in June 2007;
- acquisition of LLC Moldim, the whole milk products factory in Kryvyi Rig in April 2007;
- acquisition of Chernigiv Dairy Plant and Gorodnyansky Butter Plant plants (each located in the Chernigiv region of Ukraine) in November 2007;
- construction of Moloko Polissya milk farm (located in the Chernigiv region of Ukraine) in 2007;
- acquisition of Ostankino (located in Moscow, Russia) in January 2008;
- installation of nanofiltration equipment for dry whey at Mena in 2008; and
- acquisition of additional 10.42% in the share capital in Ostankino in 2010.

The Group's capital expenditure during periods under review and up to the date of this Prospectus (including principal investments currently in progress) has been financed primarily from cash flow from its operations, bank borrowings and loans from related parties.

The Group plans to continue investing into its growth and intends to spend approximately between EUR 43.0 million and EUR 46.0 million in capital expenditures between 2011 and 2015, although the actual amount will depend on a variety of factors, including operating cash flow and other factors wholly or partially out of the Group's control. The Group's actual capital expenditures may vary significantly from its estimates. The Group's current investment plan which it expects to implement between 2011 and 2015 is set out in the table below.

Segment	Estimated implementation period	Estimated cost (EUR millions)	Overview and key projects
Cheese	2011-12	10.0	Modernization of Okhtyrski Cheese Plant to increase efficiency and increase capacity by 7,000 tonnes
	2011-15	4.0	Ongoing modernization, upgrade and maintenance of production facilities
Whole milk products	2011-12	10.0-13.0	Modernisation of Ostankino
	2011-15	7.0	Modernisation of Ukrainian whole milk production facilities with upgrades to modern packaging lines and harmonisation of capacities across the plants
Farms	2011-12	8.0	Upgrade of existing farms to house 3,500 cows with target raw milk production of 20,000 tonnes per annum
Corporate	2011	4.0	Consolidation of approximately 14% remaining minority shareholders in Ostankino
Total		**43.0-46.0**	

In addition to the foregoing projects, the Group is considering an acquisition or a greenfield investment into cheese production facilities in Russia with a target capacity of 15 to 20 thousand tonnes and further investments into dairy farms in Ukraine, such as capacity increases and/or acquisitions with a view to achieve an estimated annual production of 50 thousand tonnes of raw milk by 2015.

The Group does not currently plan any major investments in its dry milk production facilities. The Group may in the future consider investments into whey refining to produce value added products such as protein.

The Group's borrowing requirements are not subject to significant seasonal fluctuations. During summer months the Group occasionally uses short-term borrowings to finance the increases in its cheese and dry milk inventory which it sells during autumn and winter to benefit from higher demand for such products during these periods.

Capital Resources

The Group expects to fund its current and anticipated capital resources in the short term from net cash generated from operating activities. In the medium and long term the Group plans to fund its capital resources from net cash generated from operating activities as well as a variety of debt and equity sources (including the proceeds from the Offering and bank borrowings) will be sufficient for its anticipated capital expenditure and other operating needs under its current strategic plan. In the medium and long term the actual amount of the Group's financing requirements however, will depend on its future performance, market conditions and other factors, many of which are outside the Group's control and cannot be predicted with any certainty. As a result, the Group's future financing requirements may vary significantly from its expectations.

The Group has made a firm commitment in relation to future investment in relation to the acquisition of approximately 8% in the share capital of Ostankino for EUR 3.1million. The Group does not plan to use debt financing in connection with this investment. The Group expects to finance this investment with the funds from the sale of VAT bonds and through optimisation of its working capital.

Under Russian law, the Group is limited in using Ostankino's capital to finance funding requirements of other Group entities. Therefore, the Group uses Ostankino's capital for the operational and investment purposes of Ostankino only. This restriction will be eliminated once the Group acquires 100% control over Ostankino which is expected to be completed in 2012.

The Group's financing agreements do not contain restrictions on the use of proceeds received thereunder.

The Group's existing financing arrangements are subject to certain covenants and restrictions which could limit the Group's ability to obtain future financing and/or limit the terms on which such financing may be available. In particular, the Group's financing documents for loan arrangements with each of Ukreximbank, Raiffeisen Bank Aval and Ukrainian Professional Bank contain covenants that limit the Group's ability to obtain financing from other lenders and a negative pledge covenant restricting the ability of the Group to provide security and guarantees to other potential lenders. Additionally, the financing agreements with Ukreximbank, and Ukrainian Professional Bank limit the ability of the Group to enter into joint venture arrangements unless certain conditions regarding the distribution of income are met. Furthermore, under the terms of certain of the Group's loan agreements, the Group must maintain minimum levels of net worth and comply with, among other things, a fixed charge coverage ratio and a leverage ratio. Please also see "Material Contracts―Financing Arrangements" for a more detailed description of the Group's financing agreements and security granted thereunder.

Global Dairy Industry

Production and consumption overview

According to the Food and Agriculture Organization of the United Nations ("FAO") Global Market Analysis from June 2010, world milk and milk products production in 2009 was 699.5 million tonnes of milk equivalent ("milk equivalent"), representing 2.2% average annual growth since 2000. In 2010, the global dairy market is expected to grow by a further 2% and reach 711.9 million tonnes, according to FAO. Developing countries were the main growth drivers with over 4% average annual growth since 2000, resulting from population growth and increase in per capita consumption. The dairy sector in developed countries grew at an average rate of 1% per annum since 2000.

The table below shows the global dairy data in the key dairy consuming regions in 2009:

Region	Dairy production, million. tonnes of m.e.	Net imports, million. tonnes of m.e.	Dairy consumption, million. tonnes of m.e.	Dairy consumption, kg m.e. per capita	
				Processed	Total
the EU-27	154.0	(8.2)	145.8	248	292
USA	85.8	(1.2)	84.6	262	276
India	112.3	(0.3)	112.0	17	96
Russia and Ukraine	44.2	5.5	49.7	145	264
PRC	39.4	3.1	42.5	21	32
Rest of the world	263.8	1.1	264.9	-	80
Total	**699.5**	**-**	**699.5**	**-**	**103**

Sources: FAO, Derzhkomstat, Rosstat, Belstat, Eurostat, Population Reference Bureau

Note: Change in stocks is insignificant and not taken into account

Dairy consumption varies significantly across the regions and depends mostly on local production capabilities. The structure of dairy consumption may also differ considerably even between neighbouring countries, depending on traditions and cultural preferences.

The EU is the largest dairy market globally with approximately 290 kg per capita consumption in 2009. Some countries such as the Netherlands and Denmark top the list with above 500 kg per capita consumption level. Also, the EU is the major world exporter of dairy products, having sold 8.2 million tonnes in milk equivalent abroad in 2009. However, this comes at the cost of aggressive protectionist measures. Pursuant to the Common Agricultural Policy (CAP), the EU operates a milk quota scheme that limits the volume of milk produced and imposes import tariffs. Such a quota system keeps the EU prices above the world's level due to prohibitive imports tariffs; at the same time, export refunds allow the EU producers to sell dairy surplus at competitive prices. In order to improve economic efficiency, the European Commission plans to reform the CAP and abolish the quota system by 2015.

The United States is the third largest dairy market globally and is developing quickly, due to the growing population and a high consumption of dairy products, which over the last 20 years increased from 246 kg per capita in 1989 to 276 kg per capita in 2009. The US is the world's leader in efficient large scale milk production and processing, and thus benefits from the resulting economies of scale. State support is not significant and allows the producers to compete freely both on domestic and international markets.

Russia and Ukraine combined represent the fourth largest dairy market globally with strong traditions of milk product consumption. In Soviet times, these countries consumed about 400 kg per capita of milk annually. Following disintegration of the USSR, milk consumption dropped by nearly half to 240 kg per capita in 2000. Currently the market is recovering and the consumption reached 264 kg per capita in 2009. In terms of milk processed the region consumed 145 kg per capita in 2009, about twofold lower compared to 1990. The lack of efficient dairy farming is the main growth constraint. Local dairy producers are not able to satisfy quickly growing demand, and the region, in particular, Russia, is now one of the largest importers of dairy products worldwide.

The People's Republic of China PRC is a quickly growing dairy market due to significant state support for dairy producers. The Chinese government has introduced a nationwide long-term programme of adding milk calcium to the population's diet. As a result, overall milk consumption in PRC has increased from 6.1 million tonnes of milk equivalent in 2000 to 42.5 million tonnes in 2009. However, the livestock farming conditions in PRC are not favourable. Therefore, PRC is one of the significant global importers of dairy products and will remain so in the long term.

India is the world's second largest dairy market, due to its significant population and livestock size. However, the productivity in India is one of the lowest globally, with annual milk yield of less than 2.0 tonnes per cow. In addition, approximately 80% of milk in India is not industrially processed.

International trade and global prices

Raw milk can not be transported for long distances. Therefore, the world dairy trade is limited to high density milk products such as dry milk powder, butter, and cheese. In 2009, international trade amounted to 3.3 million tonnes of dry milk powder, 0.7 million tonnes of butter, and 1.9 million tonnes of cheese, or approximately 7% of global dairy consumption in milk equivalent.

The main importers of dairy products are Russia and regions with unfavourable farming conditions, such as the Far East, Africa, and Middle East. The main exporters are the EU, New Zealand, Australia and Argentina.

The international dairy trade is an important price setting indicator in most of the regions. High global prices for commodities such as milk powder and butter usually result in an increase in raw milk prices. On the other hand, depressed global prices drive local raw milk prices down. The last downward cycle in the dairy industry was in 2008-09, with the FAO Dairy Price Index in February 2009 down by 55% from the level of February 2008. Milk prices stayed low until the third quarter of 2009, and consequently many dairy farms were put out of business.

The table below shows average annual prices for dairy products for the years indicated:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-May
FAO Dairy Price Index[1]	95	107	82	95	123	135	128	212	220	142	211
Butter[2], EUR per tonne	1,304	1,444	1,117	1,196	1,437	1,711	1,413	2,159	2,443	1,674	3,243
Whole milk powder[3], EUR per tonne	2,000	2,206	1,469	1,595	1,624	1,818	1,747	3,053	2,604	1,722	3,154
Cheddar cheese[4], EUR per tonne	1,987	2,366	1,787	1,648	2,099	2,281	2,135	2,959	3,138	2,120	3,203

Sources: FAO, European Central Bank

[1] *Consists of butter, SMP, whole milk products, cheese, casein price quotations; the average is weighted by world average exports trade shares for 2002-2004.*

[2] *Butter, 82 percent butterfat, f.o.b. Oceania; indicative traded prices*

[3] *Whole Milk Powder, 26 percent butterfat, f.o.b. Oceania, indicative traded prices*

[4] *Cheddar Cheese, 39 percent max. moisture, f.o.b. Oceania, indicative traded prices*

As a result of a shortening supply and exhausted stocks, prices spiked in November 2009 and have subsequently settled at those levels. The considerable variation in prices forced governments to introduce policies to manage eventual future price swings. In particular, in 2010, dairy-based futures trading is planned for Europe, New Zealand and the US in what is argued to be a vital step forward.

The Group's Core Dairy Markets

Overview

Russia and Ukraine are core dairy markets for the Group and for the purposes of this Prospectus are collectively referred to as the "Group's core markets".

The table below shows information about sales in the Group's core markets in 2009:

	Population, million	Raw milk production, million tonnes m.e.	Milk processed, million tonnes m.e.	Net imports, million tonnes m.e.	Dairy consumption, million tonnes m.e.		Dairy consumption, kg per capita	
					Processed	Total	Processed	Total
Russia	142	32.6	17.0	6.0	23.0	38.6	162	272

Ukraine	46	11.6	4.7	(0.5)	4.3	11.1	92	241
Total	**188.0**	**44.2**	**21.7**	**5.5**	**27.2**	**49.7**	**145**	**264**

Sources: Derzhkomstat, Rosstat

The Group's core markets account approximately 190 million people with almost 50 million tonnes of milk equivalent annual consumption in 2009. Per capita consumption stood at 264 kg in 2009, well above the world's average of 103 kg, however, this is significantly lower than the historical level of almost 400 kg per capita in those markets. In addition, processed milk consumption in the region stands at only 145 kg per capita, lagging considerably behind the EU (ca. 250 kg) and United States (ca. 260 kg).

In the Group's core markets the market share of industrially processed milk is 49% compared to the current EU level of 80-90% according to the IFCN. The remaining milk is either consumed directly in homes, or it is domestically processed and sold through open markets. Historically in the CIS about three quaters of milk was industrially processed. After the collapse of the Soviet Union, industrial processing plummeted to as low as 35% in 2000. Since that time, however, the trend has reversed with milk processing market share increasing steadily.

In monetary terms the Group's core markets have grown on average by 18.7% annually between 2003 and 2008, and reached EUR 13.3 billion in wholesale prices in 2008. In 2009, due to a drop in consumption and severe local currency devaluation, the market plummeted by 18%. The resulting average market growth between 2003 and 2009 was 11.6%.

The table below shows information about the size of the Group's core markets in the years indicated:

	2003 EUR billion*	2008	2009	CAGR 2003-08 %	CAGR 2003-09 %
Russia	4.7	11.4	9.4	19.4%	12.2%
Ukraine	0.9	1.9	1.5	14.8%	8.5%
Total	**5.6**	**13.3**	**10.9**	**18.7%**	**11.6%**

Sources: Derzhkomstat, Rosstat, Amico, UN Comtrade database

* *Wholesale prices, net of VAT*

Product categories

The Group's core dairy markets represent four major product categories such as whole milk products ("WMP"), cheese, butter, and dry milk products ("DMP"), as shown per table below:

Category	Main product groups	2009 market value, EUR billion*	2009 balance			Consumption in 2000, thousand of tonnes	CAGR, 2000-09
			Production, thousand of tonnes	Net imports, thousand of tonnes	Consumption, thousand of tonnes		
Whole milk products	Drinking milk Cultured milk products Curd products Yoghurts	5.8	8,940	89	9,029	5,089	6.6%
Cheese products	Hard cheese Soft cheese Processed cheese	2.6	682	222	904	306	12.8%
Butter products	Packaged butter Spreads Monolith butter	0.9	513	136	649	423	4.9%
Dry milk products	Whole milk powder Dry skimmed milk Dry whey Casein	0.4	315	97	412	313	3.1%
Other	Condensed milk Ice cream	1.2	915	4	919	723	2.7%
Total		**10.9**	**11,366**	**549**	**11,914**	**6,855**	**6.3%**

Source: Derzhkomstat, Rosstat, Amico, UN Comtrade database

* *Wholesale prices net of VAT*

Whole milk products are the largest category of products, consuming about half of the raw milk delivered to production plants. In 2009 whole milk products consumption was in excess of 9 million tonnes, representing 6.6% average annual growth from 2000. In addition to traditional drinking milk, this category includes a variety of locally popular cultured products such *as kefir, ryazhenka* and sour cream. These products are used as drinks or snacks, or added to meals as salad dressing and soup supplements. Curd-based products such as *tvorog* are also very popular in the CIS. Yoghurts account for a relatively small market share, but are gaining in popularity.

Cheese is the second largest category and is growing rapidly. Since 2000, the volume of cheese consumption has nearly tripled to approximately 900 thousand tonnes in 2009. The Group's core cheese markets have already surpassed their 1990 level of ca. 600 thousand tonnes and continue to grow. The majority of cheese types, such as *rossiyskiy* and *gollandskiy*, date back to Soviet times and remains most popular to date. European and US mainstream cheese types such as cheddar, camembert, parmesan and mozzarella hold a relatively insignificant share in Russia and Ukraine, but their share in overall cheese consumption is growing. Processed (melted) cheese is normally an economy product made from cheese scrap and milk powder. Consumption of processed cheese is also growing, but to a lesser extent.

Butter used to be one of the major dairy products in the Soviet Union with over 1 million tonnes consumed annually. However, it has lost some of its appeal recently, due to changes in consumption patterns. Spreads are a relatively new product in CIS markets that took significant share from butter due to their cheaper price and convenience. Butter consumption for industrial uses (mainly in the confectionary and bakery trades) remains stable. Since 2000 the annual growth of butter and spreads consumption annually was average 4.9% in volume terms.

Dry milk products include whole milk powder, skimmed milk powder, and dry whey. These products are commonly used in the food industry. Whole milk powder is essentially dried raw milk that later can be restored and used in milk products. Skimmed milk powder is a by-product of butter production, when the fat turns into butter, and the low fat fraction is dried. Dry whey is another by-product received in the course of cheese production. The demand for dry milk products has been stable, growing on average annually by 3% since 2000.

Despite recent high growth in per capita consumption of dairy products in Russia and Ukraine, these countries still lag behind the EU consumption levels as per the table below:

	Per capita consumption in 2009, kg		
	Drinking milk	Cheese	Butter
Russia	31.4	5.1	2.6*
Ukraine	16.3	3.8	2.0*
Poland	75.0	19.6	5.0
Slovakia	56.6	7.7	2.9
Hungary	71.3	8.9	0.6
Romania	100.1	20.9	0.7
Germany	62.6	21.1	5.6

Sources: Eurostat, Derzhkomstat, Rosstat

* *Spreads are not included*

Per capita consumption of dairy products in the core CIS markets is significantly lower than in the neighbouring countries, although it must be taken into account that there are strong traditions of milk consumption and a recovering dairy industry in these markets.

Production and key players

In Soviet times, the dairy industry in Ukraine and Russia processed in average about 60 million tonnes of raw milk annually. After disintegration of the USSR the sector went through a major decline with many dairy plants and farms going out of business. In the late nineties the industry started recovering, as local demand improved and exports trading became attractive due to the availability of cheap local milk. Today, local producers in Ukraine and Russia are capable of satisfying essentially all of the demand for whole milk products and 70-80% of the demand for cheese and butter.

The following table presents historical data of milk production and processing:

	1990	2000	2009	CAGR 2000-09, %
Milk produced, million tonnes	80.2	44.9	44.2	(0.2%)
Share of milk processed, %	*74%*	*35%*	*49%*	
Milk processed, million tonnes	59.7	15.6	21.7	3.7%
Processed for WMP, %	*37%*	*38%*	*52%*	
Processed for cheese, %	*7%*	*12%*	*19%*	
Processed for butter, %	*37%*	*40%*	*22%*	
Processed for dry milk products, %	*n.a.*	*9%*	*5%*	
Processed for other, %	*n.a.*	*1%*	*2%*	

Source: Derzhkomstat, Rosstat

Compared to 2000, the volume of milk processed in 2009 increased by 39% to 21.7 million tonnes representing 3% average annual growth in volume terms. While raw milk production over this period remained flat, the share of industrially processed milk rose from 35% to 49% between 2000 and 2009.

The combined share of whole milk products and cheese increased from 50% to 71% at the expense of butter and dry milk products.

Despite the fact that local players have significantly grown in size, the dairy industry remains fragmented and locally focused. The top 15 players control less than 30% of the total milk processed. There are only a few companies that have managed to establish production capabilities beyond their original home market.

The table below presents the biggest dairy products producers in the Group's core markets by turnover in 2009:

			Turnover[1], EUR million		Turnover segmentation[2]		
		Production assets	2009	*% of total*	WMP	Cheese	Other
1	Danone-Unimilk	Russia, Ukraine	1,448	13.3%	✔		
2	Wimm-Bill-Dann[3]	Russia, Ukraine	1,272	11.7%	✔	✓	✓
3	Vamin[4]	Russia	296	2.7%	✔	✔	✔
4	Milkiland	Russia, Ukraine	200	1.8%	✔	✔	✓
5	Milk alliance	Ukraine	173	1.6%	✔	✔	✓
6	Molvest	Russia	136	1.2%	✔	✔	✓
7	Ehrmann	Russia	129	1.2%	✔		
8	Almira	Ukraine	113	1.0%	✓	✔	✔
9	Campina	Russia	98	0.9%	✔		
10	Hochland Rusland	Russia	98	0.9%		✔	
11	Terra Food	Ukraine	94	0.9%	✔	✔	✔
12	Erconproduct	Russia	83	0.8%			✔
13	Western milk Group	Ukraine	77	0.7%	✔	✔	
14	Karat	Russia	75	0.7%	✔	✔	
15	Lactalis	Ukraine, Russia	67	0.6%	✔	✔	
	Other (~500 companies)		6,549	60.0%			
	Total		**10,908**	**100.0%**			

Sources: official reporting of companies; Astarta-Tanit; Amico; Interfax Russia

[1] Importers from outside CIS are not included

[2] ✔ – primary segments; ✓ – secondary segments

[3] Including revenues from baby food segment. Revenues of juice segment in amount of EUR 292 million not included

[4] Including non-dairy such as meat, grains and other agricultural products

Raw milk production

The local raw milk supply in the Group's core markets is not sufficient to meet demand. In 2009, raw milk production in the Group's core markets amounted to 44.2 million tonnes or 55% of the 1990 level. Collective farms, that were the main suppliers of raw milk in the Soviet Union, were transformed in the nineties in an attempt to increase farming efficiency. However, these changes resulted in a significant decline in raw milk production and a shift of supply from dairy farms to individual households (see table below):

	1990	2000	2009	CAGR 2000-09, %
Farms production, million tonnes	61.1	18.9	16.7	(1.4%)
Household production, million tonnes	19.1	27.8	28.5	0.3%
Total, million tonnes	80.2	44.9	44.2	(0.2%)
Share of farms,%	*76%*	*42%*	*46%*	
Cows, million	29.1	18.2	11.9	(4.6%)
Average cow yield, tonnes per year	2.76	2.47	3.72	4.6%

Sources: Derzhkomstat, Rosstat

Household milk production poses a number of issues for dairy producers, as milk collection from individuals is logistically challenging and raw milk varies in quality. In addition, such small raw milk producers use old-fashioned equipment and techniques for managing livestock. Therefore, it is expected that the role of individual households in the supply of raw milk will decrease and their capacity will be replaced by industrial dairy farming.

The development of dairy farming in the Group's core markets has been suppressed by the low pricing environment for raw milk. However, since 2000, raw milk prices in Russia and Ukraine have surpassed global prices, making dairy farming more attractive (see table below):

	2000	2008	2009
FAO Dairy Price Index[1]	1	2.30	1.49
Raw milk price index in CIS, local currencies	1	3.11	3.00
Raw milk price index in CIS, USD	1	3.38	2.37

Sources: FAO, Derzhkomstat, Rosstat, NBU, CBR

[1] *year 2000 is taken as a reference point*

Growing prices for raw milk have provided an incentive for local farmers to increase production and the application of modern farming techniques. As a result, average milk yields increased by 50% to 3.7 tonnes per cow since 2000, but are still well below the US and EU levels of 9.3 and 5.5 tonnes respectively. The CIS governments have provided support for the development of the dairy sector. For example, in 2009 the Russian state spending in this area amounted to EUR 617 million.

Russian Dairy Industry

Consumption and local production

Historically Russia has been one of the largest global dairy producing and importing countries. In 2009, Russia was the sixth largest dairy producer worldwide, accounting for approximately 4.7% of global raw milk production with 9.3 million tonnes worth ca. EUR 9 billion, according to Rosstat. Also, Russia is the largest global importer of cheese, butter and dry milk products, accounting in 2009 for 15%, 18%, and 4% of global net import volumes, respectively.

The dynamic growth of dairy consumption was undermined by the global crisis in 2008. Compared to 2007, in 2009 consumption of whole milk products fell by 0.9%, while cheese and butter consumption have grown moderately by 4.8% and 2%, respectively. In 2010, the market started its recovery and consumption volumes of whole milk products are expected to grow by 4.9%, according to Amiko.

The table below shows Russian dairy production and consumption:

	Production, thousand tonnes				Consumption, thousand tonnes			
	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %
Whole milk products[1]	7,641	7,607	7,578	(0.4%)	7,745	7,680	7,677	(0.4%)
Cheese	434	430	436	0.3%	695	709	729	2.4%
Butter & spreads	352	370	366	2.0%	477	506	487	1.0%
Dry milk	231	229	205	(5.9%)	356	381	335	(3.0%)

Other	715	710	676	(2.8%)	737	736	699	(2.6%)
Total	**9,372**	**9,346**	**9,260**	**(0.6%)**	**10,011**	**10,011**	**9,927**	**(0.4%)**

Source: Rosstat

[1] including *tvorog*

Exports and imports

Russia is a net importer of dairy products as domestic production covered only 84% of demand in 2009 (in milk equivalent terms). Russia imports significant volumes of cheese, butter and dry milk, which in 2009 accounted for approximately 40%, 25% and 39% domestic consumption volumes respectively as per table below:

	Exports, thousand tonnes				Imports, thousand tonnes				Net Imports, thousand tonnes			
	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %
Whole milk products	113	111	103	(4%)	218	183	202	(4%)	105	73	99	(3%)
Cheese	10	11	11	4%	272	290	304	6%	262	279	293	6%
Butter & spreads	4	4	4	3%	129	140	125	(2%)	125	136	121	(2%)
Dry milk	7	5	4	(24%)	132	157	134	1%	125	152	131	2%
Other	45	47	39	(7%)	68	73	63	(4%)	23	26	23	2%
Total	**179**	**178**	**162**	**(5%)**	**819**	**843**	**828**	**1%**	**640**	**666**	**667**	**2%**

Source: Rosstat

Cheese, the largest imports category by volume, consistently grew in recent years. Belarus and Ukraine are the largest suppliers of cheese to Russia with ca. 30.9% and 20.4% market share in volume terms in 2009 respectively. Germany, Lithuania, the Netherlands and Finland are other significant suppliers of cheese.

Russia is also one of largest butter importers globally, and these imports supplied mainly from Belarus, New Zealand and Finland (ca. 50.9%, 24.2% and 14.8% shares in volume terms respectively in 2009). Dry milk products are imported mostly from Belarus.

Major producers

The Russian dairy market is very fragmented with over one thousand producers operating on the market. The leading companies Danone-Unimilk and Wimm-Bill-Dann hold 18% and 16% respectively in volume terms of the whole milk segment. No other producer has market share of more than 4%. Overall the top 10 producers accounted for approximately 36% of 2009 domestic output in value terms, with the top five producers accounting for approximately 29% of the output. For information on competition please see – “Business – Competition”.

Raw milk supply

According to official statistics raw milk production in Russia decreased from 47.2 million tonnes in 1992 to 32.6 million tonnes in 2009 (down by approximately a third). Diminishing livestock, which plummeted by 56% from 20.6 million head of cattle in 1990 to 9.0 million heads in 2009, was a major reason for this drop in production. The decline livestock levels was somewhat offset by higher milk yields per cow, resulting in a modest 1% per annum growth in milk output since 2007. Domestic milk production and livestock ownership is still dominated by individual households which accounted for approximately 56% of the output and livestock ownership in 2009.

2007-2009 Domestic Milk Output and Livestock

	Milk Output, million tonnes				Livestock, million head			
	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %
Individual households	17.8	18.1	18.1	1%	5.3	5.3	5.3	(1%)
Dairy farms	14.2	14.2	14.5	1%	4.0	3.9	3.8	(3%)
Total	**32.0**	**32.4**	**32.6**	**1%**	**9.3**	**9.1**	**9.0**	**(2%)**

Source: Rosstat

Ukrainian Dairy Industry

Consumption and local production

Within the region Ukraine is the second largest dairy market after Russia. After reaching a record high consumption level in 2007, consumption dropped in 2008 and 2009 as a result of the global crisis. In 2009, Ukraine consumed approximately 2 million tonnes of dairy products worth an estimated EUR 1.5 billion according to Derzhkomstat. The whole milk products segment suffered the most as consumption shifted from packaged goods to home-made dairy products sold in open markets. Cheese consumption declined between 2007 and 2009 by 3.8%, while the butter and spreads segment declined by 5.3%.

According to Astarta-Tanit, in 2010 volume consumption of whole milk products is expected to grow by 3.8% year-on-year, and cheese by 2.8% year-on-year.

The table below shows Ukrainian dairy production and consumption in 2007-2009:

	Production, thousand tonnes				Consumption, thousand tonnes			
	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %
Whole milk products	1,508	1,447	1,362	(5.0%)	1,544	1,460	1,352	(6.4%)
Cheese	246	249	246	0.1%	189	179	175	(3.8%)
Butter & spreads	184	166	147	(10.6%)	181	167	163	(5.3%)
Dry milk	175	142	111	(20.6%)	78	64	77	(0.5%)
Other	257	254	239	(3.4%)	242	237	220	(4.6%)
Total	**2,370**	**2,258**	**2,105**	**(5.8%)**	**2,234**	**2,106**	**1,987**	**(5.7%)**

Source: Derzhkomstat; Infagro

Exports and imports

Historically Ukraine has been one of the significant global dairy producing and exporting countries. In 2009 Ukraine was the 10th largest dairy producer globally, accounting for approximately 1.7% of global raw milk production thus establishing itself as an important player in the international cheese market with a 3.9% share in 2009 by volume. Ukraine exports significant volumes of cheese and dry milk, which accounted for approximately 31% and 41% of 2009 domestic production respectively. Russia and other CIS countries are key export markets accounting for a half of the Ukrainian exports volumes in 2009 according to Derzhkomstat. Detailed data is shown in the table below:

2007-2009 Ukrainian Dairy Exports & Imports

	Exports thousand tonnes				Imports thousand tonnes				Net Exports thousand tonnes			
	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %	2007	2008	2009	CAGR %
Whole milk products	6	19	22	91%	42	32	12	(46)%	(36)	(13)	10	-
Cheese	61	76	75	11%	5	6	4	(6)%	56	70	71	12%
Butter & spreads	4	6	1	(52)%	1	7	16	341%	3	(1)	(15)	-
Dry milk	101	82	46	(32)%	3	3	13	98%	97	78	33	(42)%
Other	16	19	20	11%	1	1	0	(38)%	15	17	20	14%
Total	188	202	165	(6)%	52	50	47	(5)%	136	152	118	(7)%

Source: Derzhkomstat

Cheese, the largest export category by volume, grew significantly in 2008, but remained flat in 2009. Russia and Kazakhstan are the largest consumers of Ukrainian cheese.

Until 2008, dry milk was a key Ukrainian dairy export category but lost its key role to cheese, after Russia imposed import restrictions for most of the Ukrainian dry milk producers. Nevertheless, Ukraine remains a significant dry milk exporter, particularly in the skimmed dry milk category, which accounted for approximately 1.5% of global net exports by volume in 2009. Algeria, Syria, Turkey and Egypt were the largest consumers of Ukrainian skimmed dry milk and accounted for approximately 22%, 20%, 14% and 7% of Ukrainian exports, respectively.

27% of the Group's revenues are generated by exports of cheese from Ukraine to Russia. In January 2006 the Russian Federation imposed a ban on all exports of dairy products from Ukraine due to the alleged violation of veterinary and sanitary standards by the Ukrainian dairy producers. During the term of this ban few Ukrainian dairy producers which were inspected by the relevant Russian veterinary and phytosanitary authorities were granted the special permit to export their dairy products to the Russian Federation. The ban was lifted in July 2010. However, only those Ukrainian dairy producers that passed the inspections by the Russian veterinary and phytosanitary authorities are currently allowed to export their products to the Russian Federation. The Group has managed to obtain the necessary permits and the ban interrupted its exports to Russia only for the period of 3 months in 2006. Currently, the following Group companies hold valid permits for export of cheese to the Russian Federation: Mena Cheese, Okhtyrsky Cheese Plant and Romny Dairy Plant.

Raw milk supply

Stagnating raw milk supplies limit domestic dairy production and exports growth, therefore, the security of raw milk supplies has become the crucial factor determining the competitive position of dairy processing companies in Ukraine. Large dairy producing groups have been intensively competing for access to raw milk. In an effort to secure raw milk supplies the dairy companies are increasingly moving into dairy farming.

According to official statistics, over the last two decades raw milk production in Ukraine decreased from 24.5 million tonnes in 1990 to 11.6 million tonnes in 2009, representing a 52.6% decline. Livestock levels declined over this period by 66.5% to 2.9 million head of cattle in 2009, this was a major reason for the decline in raw milk supplies in the period. The decline in livestock levels has however been somewhat offset by the increase in milk yields per cow. Domestic milk production and livestock ownership is dominated by individual households, which currently accounts for more than 80% of the milk output.

The table below provides summary information on livestock headcount and raw milk volumes produced in Ukraine between 2007 and 2009:

	Milk Output, million tonnes				Livestock, million head			
	2007	2008	2009	CAGR%	2007	2008	2009	CAGR%
Individual households	10.1	9.7	9.4	(3.7%)	2.6	2.4	2.2	(7.0%)
Dairy farms	2.2	2.1	2.2	0.8	0.8	0.7	0.6	(9.6%)
Total	**12.3**	**11.8**	**11.6**	**(2.9%)**	**3.3**	**3.1**	**2.9**	**(7.6%)**

Source: Derzhkomstat

State Support for Agricultural Producers in Russia and Ukraine

As a matter of state policy, and to enhance the development of its agricultural industry, Ukraine and Russia provide various types of support to agricultural producers.

State Support in Russia

In accordance with the Federal Law No. 264-FZ "On the Development of Agriculture", dated 29 December 2006, which also applies to the milk and dairy sector, the Government of the Russian Federation shall regularly adopt state programs for the purposes of agricultural development, regulating the agricultural product market and the state financial support of agriculture. The Russian Government adopted Decree No. 446 "On the State Program of Agriculture Development and Regulation of Agricultural Product, Raw Material and Food Supply Market for the Years 2008-2012", dated 14 July 2007, which establishes, among other means of state support, subsidies in the form of partial compensation of interest on certain credits (loans) taken out by agricultural producers.

In accordance with the Federal Law No. 264-FZ "On the Development of Agriculture" dated 29 December 2006 and certain by-laws, the Russian Government is also entitled to conduct "interventions" on the product market in case the prices for certain agricultural products (namely drinking milk, dehydrated milk, butter and cheese) fall below the minimal settlement prices (or increase above the maximum settlement prices) in order to stabilize the prices and maintain the level of income of agricultural producers.

State Support in Ukraine

According to the Law of Ukraine on Milk and Dairy Products, from the state budget the state provides the following support to the producers of milk and dairy products:

- subsidy for programs on development of breeding in dairy farming and subsidy for anti-epizootic measures of the state importance;

- subsidies for raw milk of specified quality, including "first" quality, "second" quality and cream;

- support of the production of baby food;

- provision for the long term and short term loan facilities;

- provision of leasing services for the purchase of machinery to assist in the use of modern technologies in the production and processing of milk and dairy products;

- subsidies designed to increase the quality of milk by providing additional payments : (i) for milk of "extra" quality – 25% and (ii) for milk of high quality – 20%.

The following types of financial support are currently available to the Ukrainian subsidiaries of the Group:

Tax Exemptions

Ukrainian law allows for agricultural companies to register as payers of fixed agricultural tax ("**FAT**"), provided that their own agricultural production accounts for more than 75% of gross revenue. The fixed agricultural tax is paid in lieu of corporate income tax, land tax, duties for special use of water, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of a deemed value (determined as of 1 July 1995) of all land plots leased or owned by a taxpayer (for the purpose of agricultural production). According to the amendments to the Law on Fixed Agricultural Tax as of 2008, the FAT regime was extended for an unlimited period. There is however no guarantee that the FAT regime will not be discontinued in the future. Currently, one company in the Group company is registered as a FAT payer. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if the special VAT regime and state support to agricultural producers is cancelled or modified*".

Special VAT Regime and Subsidies

Ukrainian agricultural producers, including four companies of the Group, benefit from a special regime of taxation. According to this special regime, they are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20%) and the VAT paid on items purchased for their operational needs. The amount of subsidy received as a result of the application of this special VAT regime may be used for any business purposes. Currently, the VAT exemption is in force for an indefinite period. However, if it is cancelled or modified, it may negatively affect the dairy industry in whole, and the Group's business in particular.

Furthermore, since the Group produces only 1% of the raw milk required for its dairy operations, the rest of the raw milk required for its operations is purchased from third party suppliers. See - "*The Group may not be able to source sufficient quantities of raw materials of an acceptable quality*". Ukrainian dairy producers, including the milk processing companies of the Group, should use the VAT that they charge on their dairy products solely to pay subsidies to raw milk producers instead of remitting such amounts to the state budget. The subsidy is calculated as the difference between the VAT that dairy producers charge on their dairy products and the VAT that they pay on raw milk purchased from the raw milk producers. Payment of such subsidies should be made to special accounts. This VAT benefit has been extended to Ukrainian producers of raw milk since 1998, and continues to be available to them. However, if the relevant VAT benefit is cancelled or modified, it may result in the increase of the purchase price of raw milk, which could materially adversely affect the Group, its business, results of operations and financial condition and prospects. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if the special VAT regime and state support to agricultural producers is cancelled or modified*".

Government Grants Related to Breeding Programmes and Anti-epizootic Measures

The 2010 Budget Law allocated UAH 80 million (approx EUR 8 million) for support of agricultural companies engaged in animal and bird breeding. Most of these funds are made available to state owned companies having the status of a pedigree plant, selection centre or pedigree poultry farm. However, private agricultural companies with a similar status (such as the Group companies) are also entitled to subsidies or partial compensation of costs incurred in connection with pedigree resources. Additionally, the 2010 Budget Law allocated UAH112.6 mln (approx EUR 11 million) for anti-epizootic measures.

Partial Compensation for Finance Costs

Agricultural producers (including those producing dairy products) receive partial compensation for finance costs under loans from Ukrainian banks. The aggregate amount of this benefit is determined by the annual state budget of Ukraine. Every year the government adopts detailed criteria, and specifies the terms of such compensation. In 2010 the government adopted a procedure for use of the funds allocated for such compensation, establishing the types and purposes of the loans costs under which may be partially compensated.

Such compensation is allocated to agricultural producers by local authorities on a competitive basis by tender committees organised by local state administrations and consisting of representatives of various state authorities. Tender committees publicly announce the terms and conditions of the tender following the announcement by the Ministry of Agricultural Policy of Ukraine or chief departments of agricultural development of local state administrations of the allocation of the state budget funds for the purposes of such compensation. If an application is successful, the applicant is provided with a certificate confirming, among other things, the total amount to be received by the applicant and is included in the register of borrowers qualifying for such compensation.

On 27 April 2010, the Parliament of Ukraine adopted the 2010 State Budget Law, which has allocated UAH 1.33 billion from the State Stabilization Fund on the partial compensation of finance cost and other programs in agricultural sector. Pursuant to a Resolution of the Cabinet of Ministers of Ukraine, dated 7 April 2010, the government of Ukraine has allocated UAH 100 million to the compensation of those finance costs which were incurred as a result of loans from Ukrainian banks and which were not compensated in 2009. Until the 2010 annual plan is adopted by the CMU, such costs will be allocated on the basis of 2009-2013 programme, with the priority being the compensation of finance costs incurred in the financing of innovative projects undertaken at duly registered agricultural complexes.

State Price Control

Price Control in Ukraine

Under Ukrainian law, local state authorities may regulate prices for some food products. In particular, the local state authorities may from time to time oblige producers of certain food products, including drinking milk, tvorog, sour cream and butter, to declare any change in the wholesale prices of such products which exceed 1% per month. The Share of such products in the Group's sales by volume for the first 6 months of 2010 was less than 3%. The State Inspection on Pricing may refuse to approve the submitted declaration if it considers that the economic grounds for the increase in prices are not properly justified. In practice, the Group did not experience major obstacles from local state authorities in establishing prices for its products. However, from time to time the Group has paid insignificant fines for violation of pricing regulations. Currently, one of the Group companies is in litigation with local State Inspection on Pricing regarding alleged unjustifiable income received by the Group company as the result of the failure to declare a change in wholesale prices. Furthermore, the MU introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. The Group believes that the approach the Group uses for determining the wholesale prices for the Group's products is in line with the formula established by the above procedure.

Furthermore, the CMU has authority to establish minimum prices for raw milk purchased from the agricultural producers for the purpose of calculating subsidies (which have not yet been paid in practice) and as a base for the calculation of the purchase price for raw milk acquired from its producers. The Resolution of the CMU on Approval of the Minimal Level of Prices for the Animal Products for 2010 dated 4 November 2009 (the "Resolution") establishes the miniuml prices for the milk purchased from the agricultural producers. The price for the raw milk of specified "extra" quality is UAH 2,600 per ton, for "first" quality raw milk the price is UAH 2,500 per ton and for the "second" quality milk the price is UAH 2,120 per ton. The Resolution was adopted in accordance with the Law of Ukraine "On State Support of the Agriculture of Ukraine", dated 24 June 2004, as amended, which provides that the CMU annually adopts resolutions on the state subsidy regime and establishes the minimum level of prices for animal products to be acquired from their direct producers.

Based on the guidance issued by the Ukrainian state authorities, the Group believes that such minimum prices for raw milk are not mandatory. To date, the Group has not experienced any proceedings, investigations or penalties relating to the violation of minimum raw milk prices. However, as a strict legal matter, all unjustifiable income received by the Group resulting from the violation of state established price levels is subject to confiscation with any confiscated amounts being appropriated into the local state budget. The Group may furthermore be subject to a fine of twice the amount of any unjustifiable income. See "*Risk Factors – Risks Relating to the Group's*

Business and Industry - The Group's business could be adversely affected if detrimental price controls are introduced for Group's key products".

Price Control in Russia

In accordance with the Trade Law, suppliers of goods are entitled to set the prices on products they sell at their sole discretion, unless otherwise stipulated by federal laws in which case the prices must be established in accordance with such legislation. Such laws may envisage state regulation of prices, mark-ups and surcharges to the prices for specific products and include maximum and minimum prices to be established by state authorities.

In accordance with certain regulations passed by the Russian Government, butter and drinking milk are food products of social significance in respect of which maximum permitted retail prices may be established by the Russian Government. If the prices for any of these products increase by more than 30% during 30 consecutive calendar days in one or more regions of the Russian Federation, the Russian Government may set maximum permitted retail prices for a period of no more than 90 days within the territory of the regions where such price rises have occurred.

The Trade Law further regulates that a supplier (manufacturer) and a reseller may agree on a bonus to be paid to the reseller for the purchase of a certain volume of food products. This bonus must be reflected in the relevant agreement, it may not be added to the price of the food products and it may not exceed 10% of the price paid for the purchased food products. However, this bonus may not be paid for certain types of food products of social significance as may be separately established by the Government of the Russian Federation. In accordance with applicable regulations, such a bonus may not be paid to a business entity for the purchase of pasteurized drinking milk with 2.5-3.2% of fat content with a shelf life of less than 10 days. No other bonuses payable to the reseller for the reseller's execution of the agreement may be included in a food product supply agreement.

The Trade Law also establishes deadlines for deferred payments in food product supply agreements: the food products purchased and transferred to the reseller must be paid within 10 business days in case the of food products with a shelf life of less than 10 days, within 30 calendar days in the case of food products with a shelf life of between 10 and 30 days inclusive, and no later than 45 calendar days in the case of products with a shelf life of over 30 days. All food product supply agreements which had been entered into before February 1, 2010 (the date of entry of the Trade Law into force) must be brought into accordance with the Trade Law within 180 days after 1 February 2010. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if detrimental price controls are introduced for Group's key products*".

GENERAL INFORMATION ON THE ISSUER

The Issuer

The Issuer was incorporated on 13 July 2007 as Milkiland B.V., a Dutch private limited liability company (*besloten vennootschap*). The company was converted into an N.V., a Dutch limited liability company (*naamloze vennootschap*) on May 23, 2008. The articles of association of the Issuer were most recently amended on June 9, 2008 and have not been amended since. The Issuer is registered under number 34278769 with the Trade Register of the Chamber of Commerce of Amsterdam, the Netherlands. The statutory seat of the Issuer is Amsterdam, the Netherlands and the registered offices of the Issuer are at Reinwardtstraat 232, 1093 HP Amsterdam, the Netherlands. The telephone number of the registered office is + 38 044 369 52 53.

Corporate Purpose

The Issuer is a holding company and does not conduct any operational activity. According to article 3 of the Articles of Association, its objects are:

- to incorporate, participate in, conduct the management of and take any other financial interest in other companies and enterprises;
- to render administrative, technical, financial, economic or managerial services to other companies, persons or enterprises;
- to acquire, dispose of, manage and exploit real and personal property, including patents, trade marks, licenses, permits and other industrial property rights;
- to borrow and/or lend money, act as surety or guarantor in any other manner, and bind itself jointly and severally or otherwise in addition to or on behalf of others;
- the foregoing whether or not in collaboration with third parties and inclusive of the performance and promotion of all activities which directly and indirectly relate to those objects, all this in the broadest sense of the terms.

Corporate Resolutions and the Share Capital

- Upon the Issuer's incorporation on 13 July 2007, its issued share capital amounted to EUR 18,000, consisting of 18 thousand ordinary registered shares, with a nominal value of EUR 1, each.
- On 17 January 2008, pursuant to a shareholders resolution, the Issuer issued 72 thousand additional ordinary registered shares with a nominal value of EUR 1, after which the total issued and fully paid-up share capital consisted of 90 thousand ordinary registered shares with a nominal value of EUR 1, each.
- On 23 May 2008, pursuant to an amendment of the articles of association of the Company, the existing 90 thousand shares with of a nominal value of EUR 1 were converted and split into 900 thousand Shares with nominal value of EUR 0.10.
- On 9 June 2008 the Issuer’s share capital was further increased through the issue of 24,100,000 new shares with a nominal value of EUR 0.10 each, having the same rights and obligations as the then existing shares, after which the total issued and fully paid-up share capital consisted of 25 million ordinary registered shares with a nominal value of EUR 0.10, each and was fully paid-up.
- The Board of Directors has been authorized to issue or grant rights to subscribe for up to 50,000,000 New Shares, with the power to limit or exclude pre-emptive rights of the existing shareholders.
- In connection with the Offering, the Company will issue up to 6,250,000 New Shares, while pre-emptive rights of the existing shareholders will be excluded, for the benefit of the Issuer. For information on resolutions adopted for the purpose of the Offering and Admission see “*Terms and Conditions of the Offering*”.

Consequently, as at the date of this Prospectus, the authorized share capital of the Issuer amounts to EUR 5,000,000 divided into 50,000,000 ordinary shares in bearer form, with a nominal value of EUR 0.10 each. The issued and paid-up share capital of the Issuer, as at the date of this Prospectus, amounts to EUR 2,500,000 and is divided into 25,000,000 Shares with a nominal value of EUR 0.10 each. All of the Shares are ordinary Shares, are fully paid up and rank pari passu with each other and there is no other class of shares authorised. There are no different voting rights, and each share shall carry one vote. No depositary receipts for Shares in the capital of the Issuer have been issued with the agreement of the Issuer, and the Issuer has not been informed that depositary receipts for Shares in the capital of the Issuer have been issued without its agreement.

All the Shares including the Offer Shares have been or will be issued under Dutch law.

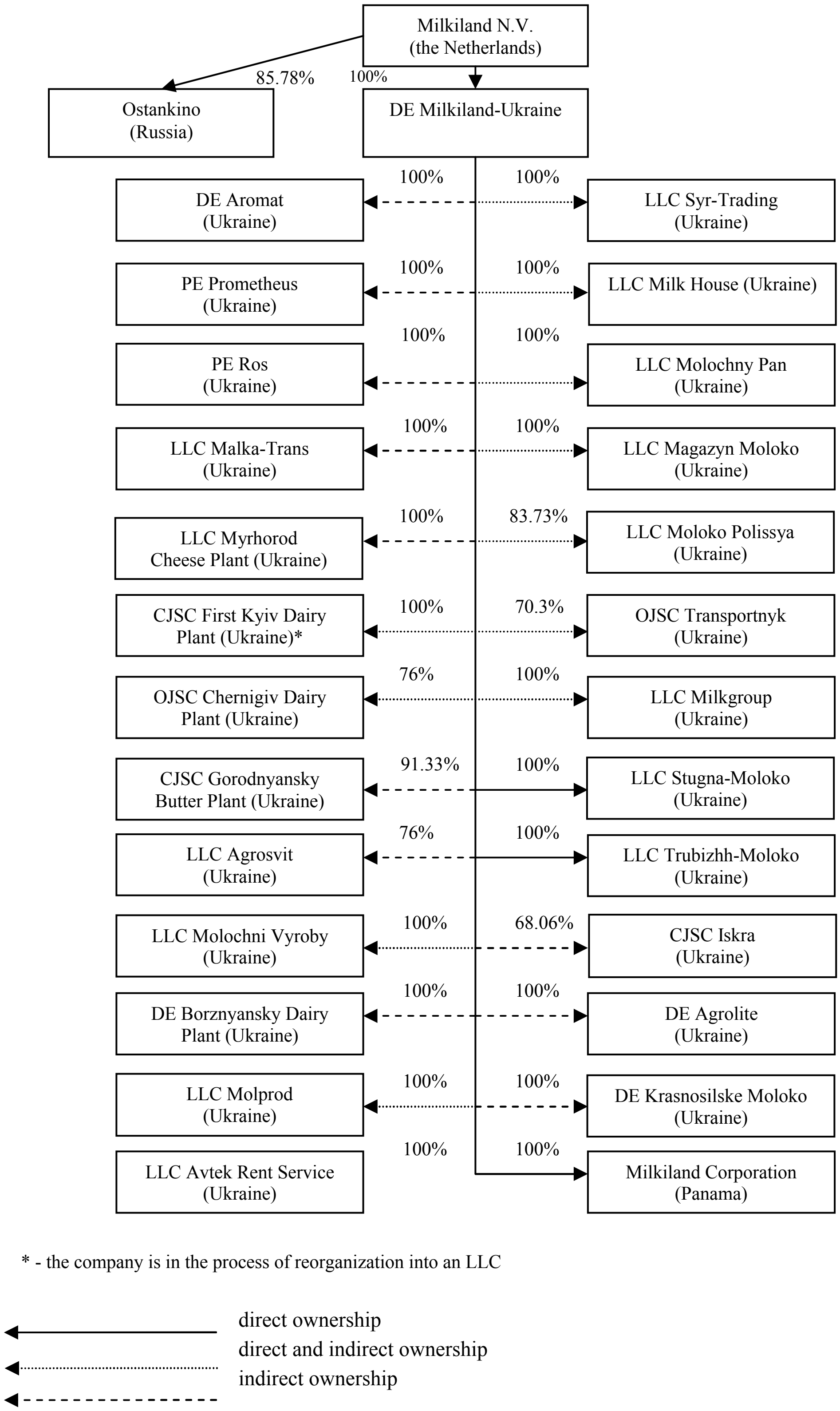
The table below shows the current Issuer's issued and paid-up share capital and the Issuer's issued and paid-up share capital after the New Shares have been issued:

Issued ordinary share capital	Cumulative number of shares	Nominal value (EUR per share)
Current shares issued as at the date hereof	25,000,000	0.10
New Shares to be issued for the Offering	6,250,000	0.10
Total issued shares post-Offering	31,250,000	0.10

GROUP STRUCTURE

Description of the Group

The following chart describes the Issuer's principal subsidiaries and interests in those as of date hereof. For a more detailed description of the Group's assets, see - *"Business"*.



The Issuer is a parent company of the Group. The main production assets of the Group, including dairy plants and milk collecting points are located in Ukraine. Within domestic operations, Milkiland-Ukraine acts as the Group's key operating company. Milkiland-Ukraine has 26 subsidiaries, including 25 Ukrainian subsidiaries and Milkiland Corporation, a Panama company. The subsidiaries are divided into four business divisions including: production, milk collection, farming and trading. Some of the Group's subsidiaries are holding non-operational companies. Furthermore, four subsidiaries of Milkiland-Ukraine (Prometheus, Ros, Malka-Trans, and Aromat) have 15 productions branches in total which act as separate subdivisions.

The Group's Russian subsidiary is Ostankino which is a dairy plant operating in the Moscow Region.

The Group believes that the organisation and division of the Group will allow it to conduct its operations, manage the entire Group and generate profits in the most efficient, flexible and beneficial way to create additional value for the shareholders.

The links and relationships existing between the Group companies are of a stable organizational, business and technological nature.

The Group's headquarters in Kiev are located 9 Boryspilska Street, 02099, Kyiv, Ukraine. Its telephone number is +380 44 369 52 00 and its fax number is + 380 44 369 52 01.

The table below indicates the most important information on the Issuer and its subsidiaries:

Company name	Registered office	Date of incorporation / formation	Registration number	Number of board directors
Milkiland N.V.	Reinwardtstraat 232 1093HP Amsterdam **the Netherlands**	13 July 2007	34278769	4
Daughter Enterprise Milkiland-Ukraine	61-A Zvirynetska Street 01014, Kyiv, Ukraine	3 July 2002	24255176	1
Open Joint Stock Company Ostankinsky Dairy Plant	14, Rustavely Street 127254, Moscow, Russia	25 December 1992	1027739359 977	7
Milkiland Corporation	Mossfon Building, 54th Street, Panama City, Panama (office of the Registered Agent) P.O. Box 0832-0886	25 August 1999	366248	3
Limited Liability Company Ukrainian Milk House	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	11 January 2006	33909368	1
Limited Liability Company Magazyn Moloko	19, Khutir Ordasha, 09025, Kyiv Region, Skvyra district, Bezpechna village, Ukraine	29 September 1997	25268040	1
Limited Liability Company Syr-Trading	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	29 November 2005	33689598	1
Limited Liability Company Molochny Pan	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	10 January 2006	34010315	1
Limited Liability Company Molprod	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	21 August 2002	31877099	1
Limited Liability Company Milkgroup	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	27 September 2005	33428444	1
Private Enterprise Consulting Firm Prometheus	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	10 December 1999	30668980	1
Daughter Enterprise Aromat	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	28 November 2002	30737268	1
Limited Liability Company Myrhorod Cheese Plant	19, Khutir Ordasha, 09025, Kyiv Region, Skvyra district, Bezpechnavillage, Ukraine	5 March 2003	31575405	1

Private Enterprise Ros	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	31 January 2003	32191954	1
Limited Liability Company Malka-Trans	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	29 April 1998	25568003	1
Open Joint Stock Company Avtotransportne Pidpryyemstvo Transportnyk	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	24 January 1997	24594085	1
Limited Liability Company Moloko Polissya	43 Gayova Street 16542, Chernigiv Region, Bakhmach District, Pisky Village, Ukraine	19 February 2007	34963536	3
Agricultural Closed Joint Stock Company Iskra	16 Teslenka Street 42312, Sumy Region, Sumy District, Basivka Village, Ukraine	16 March 2000	14005946	4
Limited Liability Company Trubizhh-Moloko	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	5 June 2007	34921077	1
Limited Liability Company Stugna-Moloko	19, Lenina Street, apt. 13, 09000, Skvyra, Ukraine	5 June 2007	34921061	1
Daughter Enterprise Borznyansky Dairy Plant	34, Khmelnytskogo Street 16400, Chernigiv Region, Borzna, Ukraine	25 March 2002	31078805	1
Closed Joint Stock Company First Kyiv Dairy Plant In the process of reorganization into an LLC	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	13 August 1999	30530468	1
Open Joint Stock Company Chernigiv Dairy Plant	19, Lenina Street, apt. 13, 09000, Skvyra, Ukraine	24 May 1994	00447971	1
Closed Joint Stock Company Gorodnyansky Butter Plant	3, Kominterna Street 15100, Chernigiv Region, Gorodnya District, Gorodnya Town, Ukraine	15 July 1999	00448025	4
Limited Liability Company Upravlinska Kompaniya Molochni Vyroby	19, Lenina Street, apt. 13 09000, Skvyra, Ukraine	10 September 2007	35378893	1
Agricultural Limited Liability Company Agrosvit	43,Gayova Street 16542, Chernigiv Region, Bakhmach District, Pisky Village, Ukraine	05 December 2003	32803426	1
Daughter Enterprise Agrolite	19, Lenina Street,apt. 13 09000, Skvyra, Ukraine	10 January 2006	340103320	1
Limited Liability Company Managing Company Avtek Rent Service	13,Rybalska Street 01011, Kyiv, Ukraine	23 September 2008	36149660	1
Daughter Enterprise Krasnosilske Moloko	112, Lenina Street 16443, Chernigiv Region, Borzna District, Krasnopilske Village, Ukraine	18 May 2009	36375427	1
Limited Liability Company Bakhmachregionpostach	3, Tynytska Street 16500, Chernigiv Region, Bahmach district, Bahmach village, Ukraine	6 August 2010	36946051	1

The following companies from the above table have a significant effect on the Issuer's assessment of its assets and liabilities, financial position and profits and losses: Milkiland N.V., Milkiland-Ukraine, Milkiland Corporation, Ostankino, Aromat, Myrhorod Cheese Plant, Ros, Prometheus, Malka-Trans, Moloko Polissya, Iskra, Chernigiv Dairy Plant, Agrosvit, Agrolite and Krasnosilske Moloko.

BUSINESS

Overview

The Group is one of the leading CIS producers of quality dairy products with its principal operations in Ukraine and Russia. With revenue of EUR 200 million and milk processing volumes of 550 thousand tonnes in 2009, the Group ranks fourth in terms of revenues and volumes of milk processed in the CIS after Danone-Unimilk, Wimm-Bill-Dann and Vamin. In volume terms, the Group ranks third in hard cheese and is among the top five producers in whole milk products. The Group's operations in Ukraine are integrated under Milkiland–Ukraine and consists of ten production units. The Issuer is the sole shareholder of Milkiland-Ukraine. In Russia the Group owns a 85.78% interest in the Moscow-based Ostankino dairy plant.

The table below shows the Group's key data for the year ending 31 December 2009:

	Production units	Employees	Milk intake, thousand tonnes	Volume sales, thousand tonnes					Revenue in EUR million per country
				WMP	Cheese	Butter	Dry milk products	Other	
Ukraine	10	5 016	437	34.8	11.4	4.2	8.8	18.5	62.1
Russia	1	1 073	113	109.7	17.45	1.1	0.10	0.5	127.6
Other	0	0	0	0.0	1.5	0.0	6.1	0.0	10.4
Total	**11**	**6 089**	**550**	**144.5**	**30.34**	**5.3**	**15.0**	**19.1**	**200.0**

The Group's core production assets are located in Ukraine, where about 80% of the Group's milk is collected and processed. The Ukrainian business produces a wide range of products that it sells both locally and in overseas markets. The Group is capitalizing on the lower milk and labour costs in Ukraine as compared to Russia and as a result enjoys higher margins on exports to Russia.

Russia is the Group's main market and its revenues there accounted for 64% of total revenue in 2009. The Group's Ostankino dairy plant is the third largest player in the Moscow market which is the largest regional CIS market. Ostankino also serves as a local distributor for approximately 22% of the Group's cheese exports to Russia in volume terms.

The Group has developed a distinct business model combining the diversified product portfolio, a "value for money" offering for consumers, extensive raw milk supply sources and a stringent cost management. As a result the Group's historical profitability compares favourably with its peers as shown in the table below.

	EBITDA margin,%			
	2007	2008	2009	2010 (6 m)
The Group	16.2%	10.9%	16.2%	18.2%
Wimm-Bill-Dann	12.3%	12.8%	14.1%	12.7%
Unimilk	3.6%	5.2%	10.9%	n.a.
Milk Alliance	n.a.	8.1%	11.2%	n.a.

Source: Milkiland, Wimm-Bill-Dann, Unimilk, Milk Alliance

Competitive Strengths and Advantages

The Group is one of the most prominent dairy companies in the CIS, as evidenced by its growth, strong profitability and cash flows. The Group believes that its success rests on competitive strengths, as outlined below.

Highly experienced and committed management team

The Group's top management team, namely the Chairman of the Board, CEO, and COO, have been with the Group from its foundation, having successfully transformed obsolete, scattered capacities into state-of-the-art operations with an international distribution system and recognized brands. The top managers are also the Group's owners and are therefore devoted to the long-term sustainable growth of their business.

Diversified revenues

The Group operates across various dairy segments with different consumption patterns. Such a product portfolio, combined with flexible production capacities, provides a natural hedge in a volatile market environment. In addition, the Group has access to different geographical markets and is therefore able to diversify its country risks to a certain extent. As a result, the Group's EBITDA margin averaged approximately 15% during 2006-2009, well above its peer group, even at times of unfavourable market developments such as the Russian ban on dairy imports in 2006 and the global financial crisis of 2008.

Secured raw milk supplies

The Group has built up an extensive milk collection system to ensure secured raw milk supplies. It also invests in modern dairy farms to bolster raw milk supplies and quality. These farms also act as centres of excellence for partner dairy farms in knowledge transfer programmes sponsored by the Group. The Group believes that its focus on supply will secure reliable access to quality raw milk at an acceptable price, enabling it to offer quality products to its customers, while controlling costs and increasing its margins. Access to quality raw milk provides the Group with greater flexibility to develop new value-added or premium-priced products and, in the future, to enter into new market segments.

Strong portfolio of local brands

The Group's Dobryana brand accounted for over EUR 70 million of sales in 2009 and is one of the largest dairy brands in the CIS, enjoying high recognition and customer loyalty in the medium price segment. In 2009 Dobryana-branded cheese sales increased from 18.8 thousand tonnes to 24.1 thousand tonnes amid flat sales of cheese overall in the CIS market. Also, after the acquisition of Ostankino, the Group's brand portfolio was enhanced by the Ostankinskaya brand, which is one of the popular dairy brands in Moscow.

Business Strategy

Being one of the largest dairy players in the CIS by revenues, the Group believes that it can capitalise on significant market growth potential and the market's fragmented structure, by identifying attractive consolidation opportunities and continuing its organic growth. In the medium term the Group envisages itself as a clear market leader in cheese and one of the leading whole milk producers in the CIS. The Group's strategy rests on the key pillars described below.

Building strong consumer appeal

Based on its established image as a high quality dairy producer, the Group intends to differentiate itself as "supplier of choice" for families, delivering its dairy products from the "meadow grass" to people's homes. The Group plans to offer a full range of everyday dairy products to consumers. The Group believes that it knows how to create new products which are appealing to consumers with their healthy, genuine qualities and superior taste.

The Group is capable of successfully developing and introducing new products, as evidenced by high consumer loyalty and a significant share of new offerings comprising approximately 16% of sales revenue in 2009. In the medium term the Group plans to build a competitive edge on strong consumer preferences for its in-house developed dairy products. Following its consumer strategy, the Group intends to introduce the first local premium dairy brand rivalling the international first-class brands.

Focus on cheese and whole milk products in CIS

While playing in all major dairy segments, the Group will focus on cheese and whole milk products as the most rapidly growing markets where a lot of potential remains to be captured. The Group's managerial efforts and investments will be focused on these products.

Geographically, the Group focuses on Ukrainian and Russian markets and plans to extend its production footprint in these core markets. In particular, the Group plans to set up sizeable cheese-making facilities in Russia with 15-20 thousand tonnes of annual output and establish itself among the top three local producers of cheese in Russia. In order to achieve this, the Group is contemplating either an acquisition or a brownfield project.

Gaining share from small producers

The CIS dairy industry, especially the cheese segment, is highly fragmented with small local players supplying over half of the market with what Management believes are mediocre products. Such local players are not likely to survive in the long run due to limited financial resources and lack of economies of scale. The Group has already proved its ability to grow successfully in such an environment, and plans to further gain market share by expanding its capacities and selectively integrating with local players.

Securing supplies of quality raw milk

To support its growth and ensure a quality product offering, the Group plans to establish its own milk production facilities in order to eventually satisfy 20-25% of its internal needs. The price and quality of raw milk contribute to the appeal of end products to consumers. Access to raw milk has recently become the key challenge for dairy producers in the CIS, as dairy farming is slowly returning to growth and lagging behind expanding demand.

Key strategic targets

According to the Management, the Group's organic growth plan is to increase whole milk products and cheese volumes by at least one third by 2015 and advance its market position.

Key strategic targets	2009	2015
Sales, thousand tonnes		
Whole milk products	144.5	200-250
Cheese	30.3	40-45
Butter	5.3	5-6
Dry milk products	15.0	20-25
Own raw milk production, thousand tonnes	5.0	45-55

In addition to volume growth, the Group anticipates to significantly increase its revenue per ton by rebalancing its product portfolio towards more value added products while decreasing the share of economy brands and non-branded products from approximately one third in 2009 to 10-15% by 2015.

History and Development

The Group has grown from a medium sized business of EUR 10.3 million revenue in 2000, to become a leading CIS dairy producer with EUR 200 million revenue in 2009. The Group was founded in 1994 by a local entrepreneur Anatoliy Yurkevych, initially as an exports trading company for dry milk products. Then, the Group started acquiring production assets with an aim of creating a large scale dairy business with a diversified product range, a strong local presence and significant exports potential.

During 1997-2007 the Group acquired 26 local dairies in Ukraine and, after the modernization and consolidation of production units, structured its business into 10 production units and 8 regional milk collection centres. In 2007 the Group became the largest milk processor in Ukraine.

In 2008, the Group acquired Ostankino as its first production asset outside Ukraine.

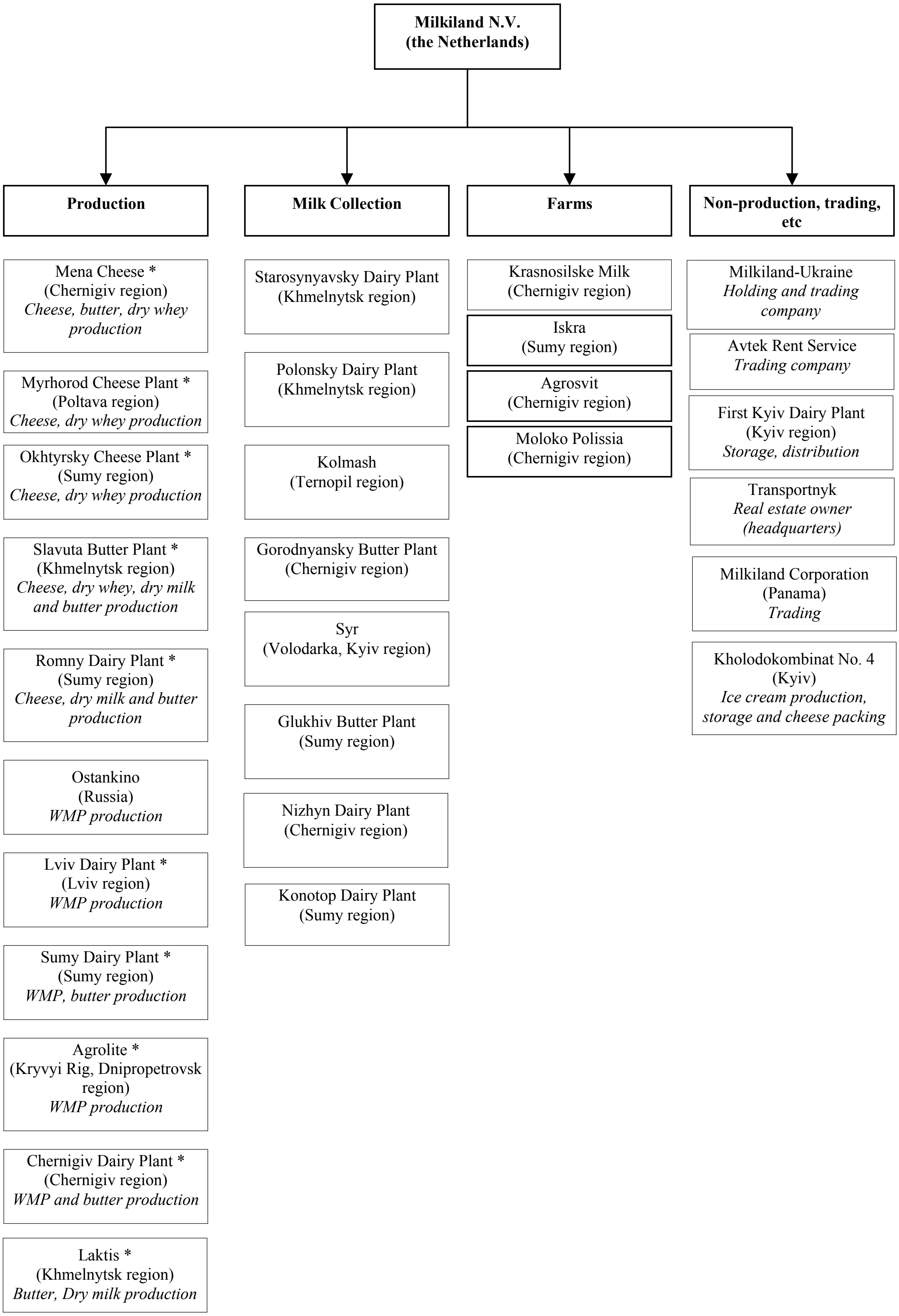
The table below sets out milestone of the Group's history:

Period	Events
1997-2001	• Five small dairy plants and Sumy Dairy Plant acquired • The Group's top management team formed, after the joining of Mr. Vyacheslav Rekov (currently the Group's CEO) and Ms. Olga Yurkevych (currently the Group's COO) • Revenues reached EUR 20.7 million in 2001, mainly on the back of dry milk and butter sales
2002	• Cheese operations started: in addition to small Laktis cheese plant (integrated in 1997), Mena cheese plant acquired. Now Mena Cheese is the Group's flagship cheese operation
2003-07	• The Group becomes a leading cheese producer in Ukraine as a result of organic growth and acquisitions • Expansion of whole milk operations: key plants such as Lviv Dairy Plant, Chernigiv Dairy Plant and Agrolite acquired • Romny Dairy Plant (one of the largest dry milk plant by capacity in Ukraine) acquired
2008	• Ostankino dairy plant acquired • The Group posted its record turnover of EUR 270.4 million

2009-10	• The Group restructured its loan portfolio • New organization structure established in order to continue international expansion • Brand portfolio was optimized

Production

The graph below outlines the operational structure of the Group with functions divided to production of dairy, collection of raw milk, production of raw milk, trading, and other roles such as holding company etc.:



*** these production units also collect milk**

Facilities overview

The Group's plants are able to process up to 1.1 million tonnes of raw milk annually. In terms of final products, the Group's production capacities allow for up to 268 thousand tonnes of whole milk products, 43 thousand tonnes of hard and processed cheese, 34 thousand tonnes of butter, and 46 thousand tonnes of dry milk products.

The table below shows the Group's production capacity at its main production plants:

	Milk intake capacity, kt/year	Capacity by product, kt/year					
		WMP	Hard cheese	Processed cheese	Butter	Dry milk powder	Dry whey
Ostankino	175	170.0	0.0	0.0	0.0	0.0	0.0
Mena Cheese	175	0.0	15.8	0.0	3.5	0.0	5.3
Myrhorod Cheese Plant	98	0.0	8.1	2.5	3.5	0.0	4.2
Okhtyrsky Cheese Plant	98	0.0	8.8	0.0	3.5	0.0	4.2
Lviv Dairy Plant	35	24.5	0.0	0.0	1.8	0.0	0.0
Slavuta Butter Plant	105	0.0	5.3	0.0	2.5	3.5	2.5
Laktis	42	0.0	1.4	0.0	2.1	2.5	1.8
Sumy Dairy Plant	53	28.0	0.0	0.0	2.8	2.5	0.0
Romny Dairy Plant	245	10.5	1.4	0.0	10.5	17.5	0.0
Agrolite	42	17.5	0.0	0.0	1.8	0.0	0.0
Chernigiv Dairy Plant	42	17.5	0.0	0.0	1.8	1.8	0.0
Total	**1.110**	**268.0**	**40.6**	**2.5**	**33.6**	**27.7**	**17.9**
	2007	39%	56%	55%	23%	52%	55%
Capacity utilization, %	2008	70%	57%	44%	23%	53%	70%
	2009	55%	72%	49%	14%	18%	74%

The main cheese production units are Mena Cheese, Myrhorod Cheese Plant, Okhtyrsky Cheese Plant, and Romny Dairy Plant. Mena Cheese is the most advanced cheese making plant and is capable of producing a wide range of products, including sophisticated specialty cheeses (Camembert, Brie, Parmesan, etc.). It went through extensive modernization in 2006 – 2007. Three plants (Mena Cheese, Okhtyrsky Cheese Plant, Romny Dairy Plant) have been certified for exports cheese to Russia.

Currently cheese output is approaching the limit of the Group's stated capacity, if seasonality of the production pattern is taken into consideration. Significant additional sales volumes will require the installation of new cheese lines. In 2011 the Group plans modernization of Okhtyrsky Cheese Plant (investment budget of ca. EUR 10 million) with an increase in capacity of 7 thousand tonnes per year. The Group also contemplates the acquisition or building of a cheese-making unit in Russia with a target capacity of 15-20 thousand tonnes, which is estimated to cost between EUR 40 million and EUR 60 million. Sumy Dairy Plant, Lviv Dairy Plant, Chernigiv Dairy Plant and Agrolite are the Group's main whole-milk plants in Ukraine, each located in strategically important regions. Sumy Dairy Plant and Chernigiv Dairy Plant are supplying Northern and Central Ukraine, including Kyiv. Lviv Dairy Plant serves Western Ukraine and the city of Lviv with a population of 800 thousand. Agrolite's dairy supplies a population of 2 million in Central and South Ukraine. Ostankino supplies Moscow and its surrounding area, a market where 1.5 million tonnes of whole-milk products is consumed anually.

Whole milk production capacities were utilised at levels of 50% to 70% over the last several few years. However, most of the excess capacities are outdated packaging lines that will not be widely used. The Ostankino modernization is scheduled to commence in 2011 and will require EUR 10-13 million investment. In addition, in the medium term long life milk production is to be moved out of Moscow for cheaper milk and running costs, while fresh dairy production will stay in the city of Moscow.

The Group also plans to undertake the modernization of its Ukrainian whole milk production facilities by the installation of modern packaging lines and the harmonisation of capacities across the plants. The overall investment programme for Ukrainian whole milk plants accounts for EUR 7 million over 2011-2013. After the key plants are modernized, the Group plans to further consolidate production and discontinue operations at Laktis, converting it into a milk collection centre.

Dry milk equipment can be turned on and will work at full capacity when global prices are attractive, or when milk powder stock levels are high. For the rest of the year such facilities are shut down. The Group considers its dry milk capacities adequate to satisfy its current needs and does not intend to invest significantly in this area.

All the Group's major production facilities, i.e. Mena Cheese, Myrhorod Cheese Plant, Romny Dairy Plant, Chernigiv Diary Plant, Okhtyrsky Cheese Plant are certified with ISO 9001 - 2009, and two plants (Mena Cheese and Romny Dairy Plant) are in the process of obtaining international ISO 22000 certification. The Group also works closely with the European Commission agencies on the matters related to dairy exports to the EU. Several of the Group's plants are on track to meet EU requirements in order to become the first Ukrainian dairy company eligible to export into the EU.

Production costs

The key input costs for the Group are raw milk, other materials (mainly packaging) and labour, together accounting for three-quarters of cost in 2009. Approximately 95% of the Group's production costs are denominated in local currencies, therefore they are not significantly affected by currency exchange vulnerability.

Raw milk is essentially the sole raw material used by the Group. The Group also uses a limited amount of dry milk (produced in-house) for certain categories of whole milk products. In 2009, the Group spent EUR 81.2 million on raw material purchases, or 62% of the total costs.

Raw milk prices are usually set on a monthly basis according to accounting for fat and protein content. Raw milk prices in Ukraine and Russia follow local seasonal trends (expensive in winter and cheap in summer) and are also sensitive to global prices. In the past any changes in raw milk prices have been passed through to consumers without any major impact on the Group's margins. For example at the beginning of 2010, retail prices for dairy products in Ukraine and Russia nearly doubled in order to compensate for the raw milk price increases.

Other materials and packaging account for almost one-third of the costs of whole milk products and up to one-tenth of the costs for cheese. The majority of packaging materials are supplied locally.

In 2009 labour costs amounted to approximately EUR 7.9 million or 6% of the costs. The Group benefits from cheap labour in Ukraine and believes that it can also improve productivity in the future.

Raw milk supplies

Since raw milk is the key production input, the Group invests heavily to ensure secure and stable supplies. In Ukraine the majority of raw milk supplies come from individual households (80%) with the remaining (20%) from dairy farms. Raw milk from dairy farms is of a higher quality due to the professional care of livestock and the use of modern milking equipment. Since raw milk supplied by dairy farms is a preferred source, the Group focuses on its relationships with farms and manages to procure approximately half of its raw milk supplies from the dairy farms, well above the Ukrainian average.

Group's raw milk supplies by source in Ukraine:

	2007 thousand of tonnes	2008 thousand of tonnes	2009 thousand of tonnes	2010 (6 months) thousand of tonnes
Farms	176	212	197	102
Including own farms	2	4	5	3
Households	325	298	240	112
Total	**502**	**511**	**437**	**214**
Share of farms,%	*35%*	*42%*	*45%*	*48%*

The Group actively develops cooperation with farms and encourages dairy farming by providing financing to its key suppliers as well as negotiating arrangements with farmers which encourage higher milk production. Also, as a part of its own farming programme, the Group plans to render training and support to many farms in order to increase their productivity and establish long-term cooperation.

The Group plans to invest approximately EUR 8 million in 2011-2012 to build two modern dairy farms, with total milk output of approx. 20 thousand tonnes. By 2015 the Group intends to receive 50 thousand tonnes of raw milk from it own farms, thus securing 7%-9% of the Group's needs in Ukraine. For this purpose the Group has leased land plots having the total area of approximately 9,500 hectares and created the necessary infrastructure. The Group's ultimate goal is to secure 20-25% of raw milk supplies in-house by 2020.

Individual households are still the dominant suppliers of raw milk in Ukraine, and will remain as such for the next 5-10 years. The Group has developed an extensive milk collection network consisting of over 1,800 collection points across key rural areas. Those collection points are equipped with cooling tanks and necessary quality control equipment to ensure that the milk collected is of an acceptable quality. Also, the Group owns a fleet of approximately 500 trucks for prompt raw milk deliveries to its processing plants.

Principal Business Segments

Overview

The Group is active in all key dairy product categories and in 2009 produces in excess of 500 stock keeping units ("SKUs"). This year the Group is in the process of streamlining its product offering to approximately 300 SKUs.

Group's product portfolio:

	2007 sales			2008 sales			2009 sales		
	Volume, kt	Value, EUR million	Average price per tonne, EUR '000s	Volume, kt	Value, EUR million	Average price per tonne, EUR '000s	Volume, kt	Value, EUR million	Average price per tonne, EUR '000s
Whole milk products	39.7	24.1	0.61	176.6	127.3	0.72	144.5	86.7	0.60
Cheese	23.5	73.3	3.11	23.9	83.9	3.51	30.34	87.1	2.87
Butter	8.0	14.4	1.80	9.7	23.1	2.38	5.3	12.9	2.44
Dry milk products	25.3	47.1	1.86	22.2	29.0	1.31	15.0	9.3	0.62
Other*	19.3	6.1	0.32	18.6	7.1	0.38	19.0	4.0	0.21
Total	**115.8**	**165.04**	**1.42**	**254.0**	**270.4**	**1.06**	**214.1**	**200.0**	**0.93**

* *Including condensed milk, ice-cream and skim milk*

Whole milk products accounted for approximately two-thirds of the volume and over 40% of the value of the Group's sales in 2009. This product category is the most diverse in the Group's portfolio. Drinking milk is a high volume but low value added product which varies mainly by fat content (1% to 3.5%). On the other hand, cultured products comprise a great variety of local drinks and snacks, such as *kefir, ryazhenka*, sour cream, yoghurts etc. *Tvorog* is curd-based cheese that is traditionally popular in the CIS countries. It is sold either unflavoured, to supplement meals, or flavoured, as a dessert.

In addition to a typical product range, the Group's Ostankino plant has re-invented several old, traditional cultured products such as *varenets* and *prostokvasha*. Such products are quickly gaining popularity, demonstrated by the high volume of growth last year.

Cheese accounted for 44% of the Group's sales in 2009 and the category consists of three types of cheese: hard cheese, specialty cheese, and processed cheese. Hard cheese is the Group's core product and has proved to be the most resilient product category during the economic downturns. While volumes of whole milk dairy, butter and dry milk suffered from the crisis in 2008-09, cheese consumption was relatively stable.

As one of the leading cheese producers in the CIS, the Group leads the sector in innovations. In 2009 a new product offering reached ca. 30% share in the Group's cheese sales. The Group's proprietary King Arthur cheese (introduced in 2005) is now the leading product in the Group's portfolio with over EUR 28 million sales in 2009 and EUR 26 million sales for 6 months of 2010.

Specialty cheeses are another example of the Group's flagship products, as currently no other CIS producer has managed to master the making of Camembert, Roquefort, Parmesan and other premium types of cheeses. Specialty cheese sales reached EUR 1.2 million in 2009 and posted EUR 0.9 million in revenues for 6 months of 2010. The Group is currently holding ca. 25% share in the specialty cheese market in Ukraine.

Butter is offered as a packaged product as well as in bulk for industrial users. Packaged butter sales are flattening out due to cheaper substitutes.

New products

The Group believes that continuous innovations and new product offering are vital for the success in the long term. In Ukraine and Russia, majority of players offer generic dairy products, either non-branded, or under poorly known regional brands. The Group has developed a number of new products differentiating Milkiland from other competitors:

- King Arthur hard cheese was developed in-house and introduced to the market in 2005. It was appreciated by the consumers and now is one of the main products in the Group's cheese business;

- Specialty cheese types such as Camembert, Roquefort, Parmesan etc. were adopted by Milkiland for the markets of Ukraine and Russia. Now it is a quickly growing category in the Group's portfolio;
- The Group has recovered and introduced old traditional whole milk dairy such as *varenets* and *prostokvasha.* These products are quickly gaining popularity withing Russian and Ukrainian consumer;
- In summer 2010, the Group offered to the market a new dairy drink from whey. Based on consumers feedback and sales monitoring, the Group believes this would be a successful addition to its product line.

At the moment, there are no new products which are currently in development, which have been publicly disclosed by the Group.

Brands overview

The Group's brand portfolio was built upon acquisitions of local players and their regional brands. As a result, by the end of 2008 the Group had more than a dozen of brands. In 2009-10 the Group has being streamlining its brands portfolio, with aim to keep a few international and regional brands. In its marketing strategy the Group pursues an umbrella brand approach and intends to use the same brand names for different product categories. Currently the Group's international brands are Dobryana for medium price segment and Kolyada for economy price segment. Also, the Group develops Ostankinskaya brand for Moscow region.

Dobryana is the Group's cornerstone brand initially introduced for hard cheese, and having proved successful developed into an umbrella brand. In the first six months of 2010 around half of the Group's products were sold under the Dobryana brand and approximately 90% in the cheese category alone by volume. The Dobryana brand is designed to appeal to Ukrainian traditions of family values, hearty meals and hospitality. Dobryana is positioned in the medium price segment and appeals to a wide consumer audience both in Ukraine and Russia.

Kolyada is a relatively new brand that is expected to take over the Group's current regional economy brands and non-branded products. In Ukrainian and Russian, Kolyada refers to the traditional Christmas song and also appeals to national heritage. Kolyada is designed to compete in the mass market category.

Ostankinskaya is a historical brand of the Ostankino dairy plant and enjoys high consumer awareness in the city of Moscow. It is a medium priced local brand appealing to traditional local taste and is a fresh product with a short shelf life. Ostankinskaya is also planned to cover the traditional product range *varenets, prostokvasha* and *ryazhenka*. Currently the Ostankinskaya brand accounts for approximately one-third of the products of Ostankino.

The Group plans to introduce a premium dairy brand once the finest product quality is ensured, and first-class packaging is in place. Development of its own modern dairy farms is expected to contribute significantly to launching of the Group's premium brand. The Group is also engaged in private label production for key retail customers in order to secure long term cooperation and access to shelves. In Russia, the Group pursues private labelling with X5 and in Ukraine with Metro, Fozzy and Velyka Kyshenya.

Sales, Distribution and Marketing

Sales and distribution

The Group uses a diversified sales structure to deliver its products to consumers through various sales channels.

Key accounts accounted for more than a third of 2009 revenues and comprised of hypermarket and supermarket chains active in the CIS. In 2009 there were 23 such customers in total, including Metro, X5, Auchan, Fozzy and Furshet. In order to secure long term partnerships with retail chains, the Group has launched several private label programmes. Local retail customers include small local retail chains, groceries and outlets. This is an important sales channel for fresh whole milk products.

The Group's network of regional distributors is used in Ukraine to access local retailers in the regions where the Group does not produce. Regional distributors are responsible for delivering the products to shelves and sales promotion. The Group sells to distributors on 14 – 21 days payment terms and for retail chains on 30 – 45 days payment terms.

Export dealers are involved in selling cheese and dry milk products abroad and this accounted for approximately a quarter of 2009 Group's revenues. They purchase on a CPT or DDU basis, mainly on prepayment terms. The Group engages export dealers for cheese exports to Russia and other CIS countries, as such dealers are well connected to local retailers and provide quick access to regional markets. The Group's largest Russian dealer partner, Ellada, accounted for one-third in of its cheese exports by volume in 2009. Ostankino also acts as the Group's key distributor of cheese exports accounting for one-quarter of cheese exports in 2009.

The Group sells two-thirds of its products to premium CIS markets in the cities of Kiev, Moscow and St.-Petersburg, these markets are characterized by high population density and their developed retail channels. The Group believes that these cities are not saturated with the Group's products.

Regional markets in Ukraine and Russia represent the highest growth potential in the medium term. These markets are less populated, but have less competition too. The Group plans to use regional distributors to gain access to these markets.

Marketing

The Group's approach to marketing is founded on continuous and instant feedback from its customers. The Group believes that close relationships with its customers and understanding their needs is essential for dairy companies. In its marketing activity, the Group focuses on direct contact with consumers, instead of pursuing extensive advertisement campaigns.

In addition, cheese, which accounts for a significant share in the Group's sales, is sold in retail outlets mostly without packaging. Therefore, the main marketing effort is done at the point of sales. The Group's over-the-counter promotion activities include samplings and product tastings, promotion campaigns, diet advice from the Group's representatives, flyers and other promotional materials distributed at the point of sale. The Group plans to further develop its means of direct communication with consumers and use this channel of communication as a main marketing tool.

Following its brand strategy developed and approved in late 2009 and the beginning of 2010, the Group intends to start a nationwide promotion campaign, reinforcing its positive image and attracting new customers. The Group plans to achieve significant brand recognition and consumer loyalty.

Competition

The CIS dairy market is fragmented, with Wimm-Bill-Dann and Danone-Unimilk being the largest players, enjoying a strong market position in the whole milk products segment. In the cheese segment, the largest producer is Milk Alliance from Ukraine holding approximately 4.5% combined market share in Russia and Ukraine. The top 10 cheese producers together account for around 20% of the market by volumes. The Group is ranked among top producers of key dairy products as per the table below:

	Amount in 2009	Ranked by market share		
		Ukraine	Russia	CIS
Raw milk processing, thousand tonnes	550	#2, after Milk Alliance	Top 10 in Russia #3 on Moscow market	#4, after Danone-Unimilk, Wimm-Bill-Dann and Vamin
Turnover, EUR million	EUR 200	#2, after Milk Alliance	#4, after Danone-Unimilk, Wimm-Bill-Dann and Vamin	#4, after Danone-Unimilk, Wimm-Bill-Dann and Vamin
Sales of whole milk product, thousand tonnes	EUR 144.5	Top 10 player	Top 5 player	Top 5 player
Sales of cheese, thousand tonnes	EUR 30.3	#2 , after Milk Alliance	#2 after Wimm-Bill-Dann	#3 , after Wimm-Bill-Dann and Milk Alliance

Note: importers are not taken into consideration

Sources: Derzhkomstat, Rosstat, Astarta-Tanit, Amico, companies' websites

Competition in the CIS dairy sector is essentially about getting access to raw milk as there is currently a shortage of raw milk in the market. Access to raw milk is crucial for those producers which focus on higher milk consuming products such as cheese, butter and dry milk. Variable raw milk quality is another challenge for fresh dairy and cheese producers.

As the CIS dairy sector is very fragmented, most of the players compete on a regional basis and only a few are big enough to compete across Ukraine and expand internationally. As a result, the Group's competition is limited to several large players and numerous local producers.

In Ukraine competition is more consolidated due to the smaller size of the market. The consolidation process has accelerated following the recent financial crisis. By 2009 the sector leaders increased their market presence and now control between 30 to 40% of the whole milk products and cheese segments.

Market shares of key Ukrainian players by volume in 2009:

	Milkiland	Milk Alliance	Terra Food	Almira	Danone-Unimilk*	Lactalis*	Western Milk Group	Wimm-Bill-Dann	Total
Whole milk products	2.6%	3.3%	5.4%	0.0%	9.5%	4.4%	4.5%	5.5%	35.3%
Cheese	6.5%	12.3%	6.8%	5.4%	0.4%	0.0%	3.9%	0.0%	35.2%
Butter	3.1%	3.1%	9.8%	0.1%	0.1%	0.2%	0.8%	0.6%	14.4%

Sources: Astarta-Tanit, Derzhkomstat, companies' websites
Excluding imports

In Russia only the whole milk products segment is highly consolidated, with Wimm-Bill-Dann and Danone-Unimilk together accounting for one-third of the market. Local players such as the Group's Ostankino do not have a country-wide presence, but hold strong local positions. Foreign players such as Campina and Ehrmann focus on their niches in fresh dairy and currently do not push for more of a market share.

The Russian cheese segment is highly fragmented with no single player having more than a 4% share. Cheese imports play a significant role in the Russian market, accounting for over 40% of market share in 2009.

Russian cheese market structure in 2009 is shown in the table below:

	Volume, thousand of tonnes	Total share	Key products	Key players
Local producers	425	58%	Mainstream hard cheese Mainstream processed cheese	Wimm-Bill-Dann Syr Starodubskiy Mozhgasyr Kalininskiy cheese plant Molvest Vamin Karat Yantar
Ukrainian importers	62	9%	Mainstream hard cheese	Almira Milkiland Milk Alliance Milk Group
Belarus importers	94	13%	Mainstream hard cheese	Berezovka Slutskiy cheese plant
Baltic importers (Latvia, Lithuania, Estonia)	31	4%	Mainstream hard cheese Premium hard cheese	Pieno Zviagzdes Zhemaitinos Pienas Viru Yust
Other importers	117	16%	Premium hard cheese Premium processed cheese Specialty cheese	Valio Friesland Foods Molkerei Ammerland
Total	729	100%		

Sources:Rosstat, UN Comtrade database

The processed cheese sub-segment is more consolidated, with Hochland, Valio and Karat holding together close to 40% share of the market. The Group does not consider processed cheese as a strategically important product, and does not plan any major development in this segment.

The Group's major competitors in the Ukrainian and Russian markets are described below.

Milk Alliance

Milk Alliance is a Ukrainian company with a similar business mix to the Group's. In 2009 the company's 9 plants produced 67 thousand tonnes of whole milk products, 40 thousand tonnes of cheese, and 4 thousand tonnes of butter. Milk Alliance is currently the leading Ukrainian cheese producer with approximately 20% share in Ukraine's total production. It reported EUR 173 million of revenues and 11% EBITDA margin for 2009.

Lactalis

Lactalis is an important foreign player that has managed to establish successful local production in the CIS. It is active in cheese, whole milk products and butter, and therefore competes with the Group across all main segments. The company owns cheese-making facilities in Russia with capacity of 6 thousand tonnes and several whole milk dairy plants in Ukraine. Lactalis focuses on medium and premium price segments, and imports a number of specialty dairy products from its foreign subsidiaries. In 2009 Lactalis reported EUR 67 million of turnover (without imports).

Almira

Almira is the Ukrainian player mainly focusing on cheese and condensed milk. The company's 2009 turnover amounted to EUR 113 million. The company is the market leader in condensed milk and owns the biggest cheese-making facilities in Ukraine oriented towards exports. However, it is not a major local player in Ukraine as it focuses more on exports.

Terra-Food

Terra-Food is the Ukrainian producer of butter and spreads. The company's Tulchinka brand is the clear leader in this segment. Also, Terra-Food owns a modern whole milk dairy plant near Kiev and supplies the Kiev market with fresh dairy products. In the cheese segment, the company focuses on cheap products. In this price category, it competes with the Group's products under the Kolyada brand. In 2009 Terra-Food sold 11 thousand tonnes of cheese and gained 6% of the market share locally.

Wimm-Bill-Dann

Wimm-Bill-Dann is the CIS market leader in the whole milk product segment. The company has production facilities in Russia, Ukraine, Georgia, Kyrgyzstan and Uzbekistan and also trades with Kazakhstan. Wimm-Bill-Dann's 2009 turnover amounted to EUR 1,564 million, of which EUR 1,272 derived from dairy product and baby food sales. The company is traded on the NYSE.

Wimm-Bill-Dann is a major player in the Moscow market with its whole milk product offering and therefore is the main competitor for the Group's Ostankino plant. Ostankino currently positions itself in a lower price segment to avoid direct competition with Wimm-Bill-Dann's brands.

The Group plans to relocate its high volume and lower value-added production out of the City of Moscow and after modernisation, to start competing with Wimm-Bill-Dann in the lower-medium price segment. The Group is not in direct competition with Wimm-Bill-Dann in any other markets.

Danone-Unimilk

Danone-Unimilk is a recently merged entity of the CIS producers ranked second and third by revenue announced in June 2010. After the merger the combined company is expected to become the largest whole milk producer in the CIS with a large share in the fresh dairy product segment. Similarly to Wimm-Bill-Dann, Danone-Unimilk competes with Ostankino in the Moscow market.

Real Property

The Group owns all of its production facilities and administrative buildings, save for some milk collection points, which are leased by Ross, Aromat and Chernigiv Dairy Plant. The companies of the Group exercise the right of ownership on real estate objects on the basis of: contracts of purchase and sale, resolutions of competent authorities, with certification of the ownership on real estate, certificates of ownership, in-kind contributions of real estate and court resolutions. Ownership rights to an increased area of the production facilities of Mena Cheese, commissioned by Prometheus, are in the process of being registered.

The Group owns its Ukrainian corporate headquarters building of approximately 7,550, square meters which is located at 9 Boryspilska Street in Kyiv.

The Group has ownership or permanent use rights only to a small portion of the land plots on which its buildings and production facilities are located. The Group leases the land plots underlying almost all of its production facilities, administrative buildings and staff facilities from local authorities under lease agreements, the terms of which range from one to 49 years.

The land plots for agricultural purposes, such as for breeding milk cows, totaling approximately 9,500 hectares are leased from local authorities and individuals under lease agreements, the terms of which range from one to 20 years. A portion of the land lease agreements of agricultural land are in the process of state registration.

The Group has a right to extend each of its current leases and has not experienced any difficulties with the extension of the term of its leases in the last five years. Under existing Ukrainian legislation, the Group also has pre-emptive rights to purchase the land plots it leases and, if the moratorium on sales of agricultural land is lifted, would consider the commercial viability of such purchases on a case-by-case basis. If and when the laws on land ownership in Ukraine change to allow the purchase and sale of agricultural land, the Group may acquire additional land for its operations (should the owners decide to sell). See – "*Risk factors – The Group may be able to obtain ownership rights to land or renew its lease agreements therefore payments under the Group's land lease agreements may increase*"

In Russia, the Group holds two industrial sites, one is located in Moscow and is operational and another is located in the city of Novomoskovsk, Tula Region, and is currently non-operational. The Group owns 38 real properties (production facilities and administrative buildings) located in Moscow and in Novomoskovsk. The Group may have other real properties in Russia, in respect of which the Group has failed to register its ownership rights.

The Group leases three land plots, one in Moscow and two in the city of Novomoskovsk, which underlay corresponding industrial sites, from the local authorities. All three leases are long-term, each for the term of 49 years. The area of the land plot underlying the Moscow industrial site is 54,891 square meters, and the aggregate area of the two land plots underlying the industrial site in the city of Novomoskovsk is 66,088 square meters.

Encumbrances

Many of the Group's assets, including real estate, plants and the equipment of milk processing plants, are encumbered under a number of mortgages and pledge agreements concluded to secure the Group's existing loan facilities agreements. See "*Material Contacts – Financing agreements*".

As at 31 December 2009, property, plant and equipment valued at EUR 64 million was pledged by the Group as collateral against bank loans. As at 31 December 2009 production equipment valued EUR 450 thousand was held under finance lease.

Licenses and Permits

Production Facilities and Technological Processes

According to Ukrainian law, including Article 331(2) of the Civil Code Article 1 of the Law of Ukraine "On Liability of Companies, their Associations, Institutions and Organizations for Violations in the Sphere of Urban Development" dated 14 October 1994 and the Resolution of the CMU "On Commissioning of Completed Construction Facilities" dated 8 October 2008, all construction facilities are subject to investigation conducted by the local state supervision authority. After the investigation the supervising authority can issue a certificate confirming compliance of the construction facilities with sanitary and fire safety rules and construction and technical standards imposed by Ukrainian law. All of the Group's existing material operating facilities were properly investigated and obtained relevant certificates.

According to the Law of Ukraine "On Milk and Dairy Products", dated 30 November 2006, as amended, it is prohibited for the dairy companies to conduct activity without obtaining the attestation certificate for the production of dairy products. The attestation certificates of some of the dairy plants of the Group, i.e., Sumy Dairy Plant and Mena Cheese have expired. While the relevant companies have applied for the new attestation certificates, and received confirmation that the new certificates will be issued in due time, they continue production of the dairy products in the absence of the valid attestation certificates. Failure of the state authorities to issue new attestation certificates to the relevant Group companies could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licenses and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

The dairy products production business of the Russian subsidiary of the Group depends, among others, on holding two licenses for the operation of production facilities, which are considered hazardous under Russian law, particularly fire-explosive and chemical hazardous, and on the company's compliance with the relevant licensing terms. Ostankino holds these licenses, but is currently in breach of some of the licensing terms. This may potentially lead to administrative suspension of the company's activities for a term of up to 90 days accompanied by the suspension of the relevant licenses. Furthermore, should Ostankino fail to eliminate the violations within the above term, this may lead to the termination of the licences by court pursuant to a request of the licensing authority. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

In addition, Ukrainian companies of the Group, as operators of food production facilities, are required to obtain exploitation permits in respect of their facilities for the production of dairy products. Ukrainian state authorities are authorised to suspend or revoke an exploitation permit if a particular facility does not comply with applicable sanitary and veterinary regulations. Not all of the Group companies engaged in dairy production have obtained the requisite exploitation permits either from the sanitary and/or from the veterinary authorities, i.e., three farms of the Group (Krasnosilske Moloko, Iskra, and Agrosvit), and Kholodokombinat No. 4 failed to obtained veterinary exploitation permits, and Laktis failed to obtain the sanitary exploitation permit. In the absence of the valid permits, the relevant Group companies may be prevented from operating their facilities, and, as a strict legal matter, without such permits, the Group will not be permitted to produce, process, store or transport their dairy products. Additionally, Iskra is engaged in the pedigree breeding without the necessary exploitation permit from the veterinary authorities, which is prohibited by law. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

Furthermore, under Ukrainian law, producing new food products, or implementing new technological processes for their production, is only allowed after obtaining permission from the sanitary and epidemiological supervision authorities. The implementation of new or refurbished production or other facilities, or the lease of any premises is prohibited without obtaining the permits from the appropriate fire safety supervision authorities. Certain Group companies have not obtained the relevant permits.

Pursuant to Ukrainian law, the failure to obtain the above permits may lead to: (i) the suspension, or the decommissioning of work and use of such companies or their equipment and buildings; and/or (ii) the relevant authority confiscating produced goods, equipment and raw materials of such companies. See "*Risk Factors - Risks Relating to the Group's Business and Industry -- The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

Most of the Ukrainian companies of the Group fail to comply with the requirements of legislation on the protection of their employees, including the requirements to conduct annual medical examinations their employees and obtain proper permits for jobs involving higher risks and operating dangerous equipment. Such failures may lead to a fine in the amount of 5% of the monthly salary fund of the company in breach. Additionally, in the event of the company's failure to obtain the above-mentioned permits, the local executive authority, upon request from labour protection bodies, may cancel the state registration of such company, provided that the company has failed to cure the violation within the period of one month. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

The Group must also obtain approval for all newly introduced technological processes from the Agrarian Ministry of Ukraine. As of the date of this Prospectus, there are no regulations or procedures in place enabling companies to obtain approval for newly introduced technological processes and, accordingly, such approvals are not currently being issued. The Group plans to obtain all necessary approvals as soon as implementing regulations and procedures become available.

Certification of Product Safety

All producers of food products, which are sold in Ukraine, must obtain a sanitary permission for each food product from the sanitary supervision authorities. Additionally, Ukrainian law provides for two types of quality certification of food products: mandatory and voluntary. In the dairy industry, the mandatory certification is required only for the mixtures based on dry milk and used for baby food and dietary nutrition. Group Companies have undergone voluntary certification and obtained certificates of compliance for their products.

Producers of food products are also required to implement sanitary and good manufacturing practices, Hazard Analysis and Critical Control Point (''**HACCP**'') methodology, which is an internationally recognised methodology for increasing the safety of food, or other systems of product safety. The Ukrainian analogue of HAACP is SMSFP (System for management of Safety of Food Products) certification that is carried out by the national certification body of Ukraine in the UKRSEPRO system. Mena Cheese, Chernigiv Dairy Plant and Nizhyn Dairy Plant were certified under HACCP, and Myrhorod Cheese Plant, Okhtyrsky Cheese Plant, Romny Dairy Plant were certified under SMSFP.

Environmental and Other Licenses and Permits

Ukrainian companies must obtain a number of environmental permits in order to carry out their activities. While the major production facilities of the Group have obtained almost all of the necessary permits from the environmental authorities, not all Group companies have (i) obtained permits for the generation and placement of waste without permits within approved limits or concluded the necessary agreements on waste transfer and disposal, (ii) obtained permits for special water usage or complied with other requirements of legislation on usage of water resources, (iii) obtained permits for special use of subsoil for usage of water from artesian wells, (iv) obtained permits for the emission of contaminative substances into atmospheric air by the stationary sources, etc. Although the Group intends to comply with the environmental regulations and to obtain all necessary permits, several Group companies are currently in litigation proceedings with local environmental authorities regarding their non-compliance with environmental laws and regulations and/or failure to obtain necessary permits. See "*Risk Factors – Risks Relating to the Group's Business and Industry - The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*".

The Law of Ukraine "On Licensing of Some Types of Commercial Activity", dated 1 June 2000, as amended, prescribes that certain types of commercial activity can be conducted by the companies only upon obtaining of the special license. Some of the Group companies hold several valid licenses on purchasing, storage, transportation and sale of precursors.

Use of Genetically Modified Organisms

Ukrainian legislation prohibits the use of genetically modified organisms ("GMO") in the production of baby food products. Imports to, or production in, Ukraine of other food products produced with the use of GMO is permitted, provided that the GMO has been registered with the state register of GMO. Most recently Ukraine has introduced a system of mandatory labelling of food products which contain GMO or were produced with the use of products containing GMO. The Group does not use GMO in its products.

Insurance

The Group insures its principal assets which have been pledged or mortgaged against risk of loss or damage caused by fire, lightning, explosions, arson, natural disasters, water damage, burglary, robbery, etc. The Group also insures its cargo for the purposes of exports, as well as vehicles against the risk of loss or damage. As required by law, the Group maintains statutory insurance of employees of departmental and rural fire securities and members of volunteer fire brigades, personal insurance of drivers against accidents on transport, civil liability of owners of transport, civil liability insurance of enterprises for damage which may be caused by fire and accidents related to high-risk objects, including fire explosive objects and objects where business activity can cause accidents of ecological and sanitary-epidemiological nature, as well as insurance of carriers of dangerous cargos against negative consequences in the course of transportation. The Group does not have full coverage against losses arising from the interruption of its business or certain damage to its property and equipment, including environmental damage.

The Ukrainian dairy plants of the Group are required by law to maintain product liability insurance with respect to products of animal origin. However, the Group does not maintain this form of insurance because of its general unavailability in the Ukrainian market and the absence of implementing regulations for maintaining these types of insurance. There are no prescribed penalties for non-compliance with these insurance requirements, and the Group does not believe there are material risks associated with its failure to comply with these requirements. See *"Risk Factors – Risks Relating to the Group's Business and Industry —the Group's insurance coverage may be inadequate"*.

Legal and Administrative Proceedings

From time to time in the ordinary course of business, the Group is involved in legal proceedings relating to its operational and trading activities, including proceedings involving Ukrainian state authorities, which arise in the ordinary course of business. To the Group's best knowledge, there are no governmental, legal or arbitration proceedings involving the Issuer and/or the Group (including any such proceedings which are pending or threatened) within the 12 months prior to the date hereof that may have or have had in the recent past a significant effect on the Issuer and/or the Group's financial position or profitability. See *"Risk Factors – Risks Relating to the Group's Business and Industry — The Group may be in the future subject to litigation which could have a material adverse effect on the Group's business"*.

Penalties, fines or interest charges

In the course of its activities, the Group has been subject to penalties and fines imposed by various state authorities, including tax inspection, antimonopoly authorities, environmental authorities, and other, none of which is significant. The total amount of fines and penalties paid by the Group for the period of 2007, 2008, 2009 and 6 months ended 2010 was approximately EUR 1 million.

Intellectual Property

The Group holds a number of trade marks in Ukraine, the Russian Federation and Republic of Kazakhstan to protect its products. In particular, the Group owns 41 certificates of trade mark registration in Ukraine, 13 in the Russian Federation and 2 in the Republic of Kazakhstan. In addition, the Group has entered into numerous license agreements on the exploitation of trade marks, has concluded contracts on the transfer of rights to use trade marks and registered a few patents for design.

The table below provides the information about the intellectual property rights held by the Group in respective countries.

	Ukraine	The Russian Federation		Republic of Kazakhstan
		IP rights held by Ostankino	IP rights held by the other members of the Group	
Trade marks in use	41	10	3	2
Trade marks for sale	-	8	-	-
Trade marks not in use, not for sale	-	11	-	-
Trade marks applications	8	-	7	1
Patents for design	5	-	-	-
Transfer of rights to use contracts	5	-	-	-
License agreements	15	2	-	-

The Group believes that it has taken all the appropriate steps to be the rightful owner of, or to be entitled to use, the intellectual property rights necessary to the proper conduct of its business. See *"Risk Factors – Risks Relating to the Group's Business and Industry — The Group's key brands or reputation could be damaged in the future - The Group's trade marks and other intellectual property rights may not adequately protect its products and brands and it may face challenges to its intellectual property rights and applications and claims that it has infringed the intellectual property rights of others"*.

IT

Activity of the Group is supported by the Enterprise Resource Planning (ERP) system Oblik that was specifically designed to meet requirements of dairy operations. In addition to the standard functionality of the ERP, the Group developed proprietary solutions to manage the supply chain in cheese production and real-time distribution, which was successfully implemented at Ostankino.

Also the Group developed a solution for automation of the raw milk collection and quality testing.

Employees

The table below indicates staff organization according to business divisions for 2007, 2008, 2009 and the period ended 30 June 2010.

	As of 30 June		
	2010	**2009**	**2008**
Head office	149	132	155
Ukrainian production units	5,030	5,430	5,889
Russian production unit	961	1,061	1,009

Farming	447	438	265
Total	6,586	7,061	7,318

Source: the Company

The table below indicates the number and functional break down of the Group's employees as at 30 July 2008, 2009, 2010

	As at 30 June		
	2010	**2009**	**2008**
Directors and managers	148	165	154
Middle management and administration	666	678	707
Full-time workers	4,575	5,034	5,387
Seasonal workers	1,220	1,209	1,071
Total	6,586	7,061	7,318

In general, the Group considers its employee relations to be good. There have never been any strikes at any of the Group's plants. The Group has significantly improved the effectiveness and efficiency of manpower by motivating employees with good salaries and satisfying work conditions. See *"Risk Factors – Risks Relating to the Group's Business and Industry — The Group is dependent on qualified personnel".*

The Group is subject to the state pension plan. The Group's pension provisions are calculated based on the individual salary of its employees, in accordance with respective laws and regulations of Ukraine. The Group does not operate a private pension plan for its employees and is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees. The Group does not have any unfunded pension liabilities.

As of the day of this Prospectus, the Group's employees do not have any shareholding in the Issuer or its subsidiaries, do not hold any stock options of other right to Shares and do not participate in any other way, in the capital of the Issuer. See further "*Management and Corporate Governance – Shares and Share Options held.*

Following its new organizational and management structure, the Group has hired a Chief Financial Officer and signed a commitment letter with the Chief Production Officer, both having strong credentials and extensive experience. These top managers are expected to contribute significantly to the Group's future growth.

CERTAIN UKRAINIAN AND RUSSIAN REGULATORY MATTERS

Ukraine

See also ''Industry Overview—State Support for Agricultural Producers, State Price Control'' for the description of state support and state price controls in the Ukrainian and Russian dairy industries.

Regulation of Ukrainian Agricultural Industry

The Ukrainian agricultural industry is subject to governmental regulation and licensing, in particular in the food safety, health and environmental areas.

Food Safety

The Food Safety Law and the Law of Ukraine ''On the Protection of Consumers' Rights'', dated 12 May 1991, as amended, are the principal laws in Ukraine dealing with food safety. According to the Food Safety Law, entities engaged in producing foodstuffs are prohibited from producing and/or putting into circulation products that are dangerous, unsuitable for consumption or incorrectly labelled. Producers are further required to use only permitted, safe and quality ingredients in the permitted amounts for producing food products. Producers and sellers of food products must ensure that sufficient and reliable information on nutritional value, ingredients, proper conditions for storage and preparation of food products, as well as the health warning associated with such products, are available to consumers. Producers and sellers are allowed to sell only those food products of animal origin for which relevant veterinary documents have been issued confirming their safety. Under Ukrainian legislation, a consumer who has sustained damages as a result of buying and consuming a low-quality, dangerous or incorrectly labelled food product may bring a claim for damages against both the producer and the seller of the product.

According to the Dairy Products Law, it is prohibited for companies that produce dairy products to conduct their activity without obtaining the required attestation certificate for production of dairy products. Furthermore, the producers of food products must also obtain approval for all newly introduced technological processes from the Agrarian Ministry.

Veterinary and Sanitary Control and Supervision

Ukrainian operators of food production facilities are required to obtain exploitation permits in respect of their facilities for the production of dairy products from the sanitary and/or from the veterinary authorities. Ukrainian state authorities are authorised to suspend or revoke an exploitation permit if a particular facility does not comply with applicable sanitary and veterinary regulations. In the absence of the valid permits, the relevant Group companies may be prevented from operating their facilities, and, as a strict legal matter, without such permits, the Group will not be permitted to produce, process, store or transport its dairy products. Additionally, Ukrainian companies engaged in pedigree breeding should obtain the exploitation permit from the veterinary authorities.

Fire Safety

Ukrainian law requires a fire permit to be obtained from the fire safety supervision authorities for the start of operations of newly established companies, the commissioning of new or reconstructed production, residential and other facilities and the use of new fire hazardous equipment for production purposes, or the lease of any premises. In case of a fire safety violation (including absence of the described permit) the state fire safety authorities may impose fines or apply preventive measures (suspension of operation of operation of enterprises, manufacturing facilities, exploitation of buildings, premises and equipment).

Health and Safety

The production and processing of food products, including dairy products, involves the performance of certain hazardous activities, including sanitising and disinfecting production, storage and transportation facilities, working with dangerous substances, gas-hazardous work and work with objects under high pressure, which give rise to a general risk of accidents.

Ukrainian producers are subject to various Ukrainian laws governing workplace safety. Their operations are monitored by the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision (the ''Labour Protection Committee''). The Labour Protection Committee has the power to inspect, at any time, the condition of producers' equipment and to monitor dangerous manufacturing processes. The Labour

Protection Committee also has wide powers to take remedial measures, including stopping any equipment and processes not in compliance with applicable laws and regulations or deemed to be dangerous to the health and safety of employees. The Labour Protection Committee is authorised to impose fines for violations of applicable labour regulations.

Producer's Declaration of Quality

According to the Food Safety Law's producers of food products must issue a declaration in respect to its products. The declaration certifies that the relevant products of the Company have been produced in conformity with all of the applicable standards and regulations. The Company issues such Producer's Declarations of Quality for its products for a definite period and for a particular batch production or parcel.

Labelling Requirements

According to the Food Safety Law all products must have labels in the Ukrainian language containing the following information: name of the product, details of the producer and production facilities, net weight, ingredients, calories and nutritive value, date of production and expiry date, number of the shipment, storage conditions and warning on possible harmful impact on the health of certain categories of the consumers (allergies). Recently, the list of information to be reflected on the label of the food product was extended and currently must contain the information whether a product contains GMO or not.

Russia

Applicable Food and Health Legislation

Russian legislation regulating the quality and safety of milk and dairy products is comprised of a large number of federal laws and regulations including technical regulations and various quality, safety and sanitary rules including most notably the Federal Law No. 29-FZ "On Quality and Safety of Food Products" dated 1 January 2000 and the Federal Law No. 88-FZ "Technical Regulation of Milk and Dairy Products" dated 12 June 2008.

Registration Requirements

Only those food products which have been duly registered in accordance with Russian law may be sold in the Russian Federation. All new food products manufactured in the Russian Federation or imported into the Russian Federation for the first time must undergo a registration procedure. The legislation makes it illegal to manufacture, import or sell products that are subject to state registration but have not been registered.

The product registration process involves a number of steps, including an expert evaluation of documents describing the product and results of various tests performed on the product, registration of the product, its manufacturer and supplier in the State Register of Food Products maintained by the Federal Consumer Rights Protection and Human Health Control Service ("Rospotrebnadzor") (and in respect of products of animal origin – maintained together with the Federal Service for Veterinary and Phytosanitary Surveillance ("Rosselkhoznadzor")) and the issuance of a certificate to the applicant permitting the product to be manufactured, imported or sold in the Russian Federation.

Confirmation of Conformity

Milk and its derivatives sold on the territory of the Russian Federation are subject to the confirmation of conformity in accordance with applicable legislation. No special license is required in Russia to manufacture milk and its derivatives except in cases when the manufacturing process involves causative agents of infectious diceases such as microorganisms (see "-*Operations with Infection Agents*" below).

The applicant may choose the form of confirmation (mandatory certification or a compliance declaration), as well as the procedure for obtaining the confirmation, unless a specific form and procedure is prescribed by applicable law for the specific product. For example, raw milk, raw skim milk and raw cream are subject to the adoption of a compliance declaration only. Specific procedures are established for children's dairy products and milk derivatives supplied for state needs as well. A declaration of conformity and mandatory certification are valid in the whole Russian Federation.

The Group's Russian subsidiary, Ostankino, undergoes a mandatory certification of milk derivatives in serial production on the basis of positive results of tests conducted on samples by an accredited laboratory with follow-up control from the relevant certification authority. During mandatory certification, the certification authority chooses samples from the milk derivatives, identifies tests to be conducted and sends the samples to an accredited laboratory for testing. If testing is successful, the certification authority issues a certificate of conformity to the applicant valid for up to three years depending on the stability of the applicant's business.

After receiving the mandatory certification, the applicant labels the respective products with a conformity mark. During further manufacturing and sale of the products the applicant is required to take all necessary measures to ensure compliance with applicable regulations. The certification authority supervises the certified products during the whole term of validity of the certificate of conformity by conducting tests on samples of such products from time to time.

Raw Milk

Conditions for obtaining raw milk from farm animals, transportation, sale and utilization of raw milk, raw skim milk and raw cream, as well as technological processes used for such purposes, must be in compliance with the Russian veterinarian legislation. Raw milk must be obtained from healthy farm animals on a territory free from diseases common for humans and animals.

Production and Transportation

Technological processes of manufacturing, storage, transportation of dairy products, as well as use, recycling, utilization of potentially hazardous milk derivatives and waste from production, must all be in compliance with sanitary and epidemiological legislation, veterinary and ecological legislation of the Russian Federation.

The manufacturer or seller which manufactures and/or sells milk derivatives on the territory of the Russian Federation must develop and adopt a production control program in order to supervise compliance applicable legislation.

Packaging and Labeling Requirements

Packaging in contact with milk and milk derivatives during manufacturing, storage, transportation and sale must be made from ecologically-safe materials permitted for contact with dairy products by Rospotrebnadzor in accordance with sanitary and epidemiological legislation. The packaging must ensure safety and quality of milk and milk derivatives during their shelf life. The packaging of finished products must display or contain certain information: the name of the product, name and address of the manufacturer, date and place of manufacturing and packaging, the manufacturer's trademark, production date, shelf life, contents of the product and nutritional information and other details. The labels must be printed in Russian and be readable.

Special Requirements for Children's Dairy Products

Dairy products for children are subject to additional requirements. Dairy products for children are divided into groups based on the age of children for which the products are intended (from birth to three years, first year, three to six years, six years to fourteen) and it is established that dairy products for children must all be safe and must meet the physiological needs of a child. Children's dairy products are also subject to special labeling requirements.

Strategic Company

The Federal Law No. 57-FZ "On the Procedures for Foreign Investments in Companies of Strategic Significance for National Defense and Security", dated 29 April 2008 ("**Law on Strategic Companies**") regulates the acquisition of control over Russian strategic companies by foreign investors and groups of persons that include a foreign investor. Strategic companies are those that conduct any of the 42 types of activities of strategic significance for national defense and security listed in the Law on Strategic Companies. In relation to the milk and dairy industry, if a company engages in the "activities involving the use of any infection agents" (as is the case with Ostankino), such a company will be considered to be a strategic company. The Law on Strategic Companies establishes additional clearance requirements for transactions resulting in an acquisition of control (within the meaning established by the Law on Strategic Companies) over a strategic company which must be obtained from the Governmental Commission on Control over Foreign Investments; in certain cases acquisition of control over strategic companies is directly prohibited by the Law on Strategic Companies (in case of acquisition of control by foreign states or international organizations or organizations under their control).

Operation of Hazardous Production Facilities

Pursuant to the Federal Law No. 116-FZ "On Industrial Safety of Hazardous Production Facilities", dated 21 July 1997 and other applicable Russian legislation any legal entity operating hazardous production facilities are obliged, *inter alia*, (i) to register such facilities in the relevant state register of hazardous industrial facilities; (ii) to maintain adequate insurance of its civil liability for causing harm to life, health, and property of third parties and to the environment in case of an accident at the hazardous production facilities; (iii) to obtain compliance certificates and permits for the use of technical devices used at the hazardous industrial facilities, as well as to comply with a number of other industrial safety requirements. Furthermore, certain activities involving hazardous production facilities of particular types (fire-hazardous and chemical hazardous production facilities) are subject to licensing. Ostankino operates four hazardous production facilities and holds two relevant licenses: for operation of fire-hazardous and chemical hazardous production facilities.

Operations with Infection Agents

The Russian law provides that companies performing activities involving the use of causative agents of infectious diseases, including those common to humans and animals (microorganisms, including those genetically modified, bacteriological toxins, simplest variety, helminthes and poisons of biological origin of I – IV group of pathogenicity, their derivatives, museum strains and sanitary-indicative microorganisms, materials that are infected or suspected of being infected by causative agents of infectious diseases of I - IV group of pathogenicity) are subject to licensing. At the moment, Ostankino holds a license for the operations with microorganisms of the IV group of pathogenicity.

Labour Safety Requirements

Issues related to health and safety at work are governed in considerable detail by the Labor Code of the Russian Federation, which imposes on employers numerous obligations related to ensuring safe working conditions and work safety. Each company must provide a safe labor working environment for its employees at their working places by means prescribed in the Labor Code of the Russian Federation, including conducting safety training, informing employees on working conditions and labor safety arrangements at work spaces, carrying out inspections of working conditions at work spaces; providing sanitary and medical services and preventive arrangements for employees in accordance with labor safety requirements, ensuring mandatory social insurance for employees against job-related accidents and occupational illnesses.

The Decree of the Ministry of Agriculture No. 897 "On Labour Safety Rules in the Milk Industry", dated 20 June 2003 (the "**Labor Safety Decree**") establishes further safety requirements for all legal entities engaged in the milk business on the territory of the Russian Federation and is aimed at preventing industrial injuries and professional and occupational diseases of the milk industry workers. The Labour Safety Decree, among other labor safety requirements, establishes that measures must be taken in order to eliminate impact of dangerous and harmful industry factors (such as machinery and mechanisms, increased milk, steam and water temperatures, toxic and irritating chemicals, pathogenic microorganisms, infectious parasites common for humans and animals, etc.) on milk industry workers.

Environmental

In accordance with Russian Federal Law No. 7-FZ "On Protection of Environment", dated 10 January 2002 (the "**Environment Protection Law**"), adverse impact on the environment includes the generation and disposal of industrial and household waste, emission of polluting / harmful substances into atmospheric air, surface and subsoil waters pollution, physical impact such as noise, heat, electromagnetic and ionizing radiation, as well as other kinds of adverse impact. One of the general principles of Russian environmental law is that the state controls adverse impacts of economic activities on the environment by establishing "limits" (i.e., an estimate of anticipated adverse impact that, at the same time, serves as a maximum permissible impact for an applicant) for certain polluting substances contained in emissions into air and emissions with waste waters, prohibiting users from emitting certain pollutants, and establishing limits for industrial waste generation and disposal. The limits are normally developed and approved for a five-year term, although temporary limits can be approved for a maximum term of one year.

Industrial Waste

In accordance with Russian Federal Law No. 89-FZ "On Industrial and Consumption Waste", dated 24 June 1998, any business is required to, inter alia, develop limits for waste generation and disposal and approve these with relevant state authorities (Rostechnadzor), undertake measures for reducing waste generation and conclude contracts with licensed companies or individual entrepreneurs on waste disposal.

Air Pollution

In accordance with Russian Federal Law No. 96-FZ "On Protection of Atmospheric Air", dated 4 May 1999 (the "**Law on Protection of Atmospheric Air**"), any business is required to identify sources of emission of polluting substances into air, develop the limits of allowable emissions into the atmospheric air and/or the limits of harmful impact on the atmospheric air and approve such limits with the Federal Service for Ecological, Technical and Atomic Supervision ("**Rostechnadzor**"). Based on the approved limits, an emission permit is to be issued by Rostechnadzor which is valid during the period for which emission limits are approved.

Payments for Environmental Pollution

Russian law provides that any economic activity which has an adverse impact on the environment (pollution) triggers an obligation by a business carrying out such activities to pay the environment fees. The level of the fees varies with regard to each kind of adverse impact on the environment and is established on the basis of limits (of waste disposal, air emissions, etc.) as approved by Rostechnadzor. Where such limits have not been developed / approved, the fees are charged at a maximum level (rates) as if the pollution were excessive (i.e. beyond limits).

MATERIAL CONTRACTS

Share purchase agreements

Acquisitions of Shares of Ostankino

On 22 November 2007 the Issuer and several sellers, i.e., Dillon Systems Ltd (Republic of Seychelles), Grouppe Universal Ltd (British Virgin Islands), Jarvist Equities Corp (British Virgin Islands), and Mr Volodymyr Yarmalchuck (a citizen of Ukraine), entered into a purchase and sale agreement, pursuant to which the sellers sold 2,046,303 shares of Ostankino (75.23% of the share capital of Ostankino) to the Issuer for the total purchase price of USD 41 million. On 15 January 2008 the issuer and the above sellers entered into an additional agreement pursuant to which the effective date of the purchase and sale agreement of Ostankino, dated 22 November 2007 was amended from 14 December 2007 to 16 January 2008.

On 30 April 2010 the Issuer and Catapel Ltd (Republic of Cyprus) entered into a purchase and sale agreement of shares pursuant to which the seller agreed to sell to the Issuer 484,109 shares of Ostankino (approx. 17.8% of its share capital) in three tranches: 48,419 shares by 17 May 2010, 217,849 shares by 29 October 2010, and 217,850 shares by 31 March 2011, for the total purchase price of RUB 295,085,377 (approx EUR 7,615,350). The first and second tranches of the sale have been successfully completed. In addition, in June 2010 the Group acquired a further 0.63% of the shares in Ostankino from another minority shareholder for EUR 0.2 million.

Financing arrangements

Loan facilities

The Group is mainly financed by loan facilities from Ukrainian and Russian banks, including Ukreximbank, Raiffeisen Bank Aval, Ukrainian Professional Bank, UniCredit Bank, Sberbank, Moscow Industrial Bank, Trust Bank and City of Moscow. All of the Group's short-term loan facilities may be repayable on demand in case of breach of the contract and there can be no guarantee that the Group will not be required to repay such facilities in the future with limited advance notice and when not provided for in the Group's budgets. Although the Group believes that it is unlikely all such contracts will be breached and, accordingly, all respective lenders would simultaneously demand repayment of their respective facilities at the same time, the Group's ability to repay its debt as and when required will be dependent on its ability to generate positive cash from operations or to refinance such indebtedness, neither of which can be assured. Any such failure may lead to the default under the Group's credit facilities and could result in the Group's creditors proceedings against the collateral securing its indebtedness.

As of 30 June 2010, after debt restructuring, the Group is a party to the following most significant financing arrangements in Ukraine and Russia:

Ukreximbank facilities

- On 11 September 2006, Milkiland-Ukraine, Malka-Trans, Ross, and JSC Ukreximbank entered into a General Loan Agreement with a maximum limit of USD 50 million (EUR 38 million) to finance a long-term programme of development of the Borrowers' activities. The maturity date is 30 September 2013. The exact amounts of the loan disbursements granted to the Company, interest rates (which are based on LIBOR, and shall be at least 12.1% per annum, but not more than 14.1% per annum) and repayment terms are established separately in each specific loan agreement. The agreement is secured with property, plant, equipment of the Group with an aggregate value of UAH 325.4 million (EUR 31 million). As at 30 June 2010, the aggregate amount outstanding under these facilities was USD 34.1 million (EUR 25.6 million).

- On 27 April 2007, Milkiland-Ukraine and JSC Ukreximbank entered into a Loan Agreement with a maximum limit of EUR2.4 million maturing on 27 April 2012. The current interest rate is 11% per annum. The agreement is secured with property, plant, and equipment of the Group with an aggregate value of EUR 4.9 million. As at 30 June 2010, the amount outstanding under this facility was EUR 0.9 million.

- On 27 March 2008, Milkiland-Ukraine and JSC Ukreximbank entered into a General Loan Agreement with a maximum limit of USD 20 million (EUR 15 million) maturing on 26 March 2009. In December 2009 the maturity date was extended to 30 May 2014. The current interest rate is 11.5% per annum. The agreement is secured with property, plant, and equipment of the Group with an aggregate value of UAH 176 million (EUR 17 million). As at 30 June 2010, the aggregate amount outstanding under this facility was USD 19.9 million (EUR 15 million).

- As a part of restructuring of Ukreximbank loans, on 21 December 2009 and on 12 January 2010 Milkiland-Ukraine, Ross, Prometheus and Aromat assigned a portion of their loan portfolio to LLC Alta Property and LLC Eurobudcom for the total amount of UAH 83.9 million (approx EUR 7.9million) and USD 24.8 million (EUR18.6 million) respectively. As of 30 June 2010 the Group settled in full its debt on assigned loans to LLC Alta Property and the unsettled balance with LLC Eurobudcom was UAH 1.6 million (EUR 0.15 million). As of the date of this Prospectus, the debt to LLC Eurobudcom has been fully settled by the Group. Please refer to Section – "*Related Party Transactions"* for more details.

Raiffeisen Bank Aval facilities

- On 11 June 2010 Milkiland-Ukraine and PJSC Raiffeisen Bank Aval entered into a General Loan Agreement, pursuant to which a revolving credit line with: (i) a maximum limit of USD 8 million (EUR 6 million) has been granted for the purpose of fulfilling obligations under agreement on debt transfer between Milkiland-Ukraine, LLC Eurobudcom and JSC Ukreximbank dated 12 January 2010 and agreement on debt transfer between Milkiland-Ukraine, LLC Alta Property and JSC Ukreximbank dated 21 December 2009, and (ii) a maximum limit of UAH 32 million (approx EUR 3.1 million) has been granted for the purpose of factoring financing and overdraft agreement, with maturity date of 31 March 2011. The loan is secured with property, plant, equipment of the Group with an aggregate value of UAH 95.5 (EUR 9 million), and suretyships provided by other companies of the Group (including the Issuer) and by Mr. A. Yurkevych (see – "Related Party Transactions"). Under the framework of the General Loan Agreement, on 11 June 2010, Milkiland-Ukraine has entered with an PJSC Raiffeisen Bank Aval into a loan agreement for the total amount of USD 8 million (EUR 6 million) with annual interest rate of 11.5% which is repayable on 31 March 2011, and into an agreement on factoring financing with regress (i.e., a factoring arrangement, where the Group carries the risk of failure of the debtor to fulfil its obligations, and the Group acts as surety for the debtor) for the total amount of UAH 13.7 million (approx EUR 1.3 million) with an annual interest rate of 23% which is repayable on 31 March 2011. The addendum to the factoring agreement, which is necessary in order for the arrangement to become effective, has not been signed by Milkiland-Ukraine, and, therefore, this arrangement is currently not effective. Milkiland-Ukraine does not plan to use this factoring arrangement in the future.

Ukrainian Professional Bank facilities

- On 28 December 2006, Aromat has entered into the Loan Agreement with the Ukrainian Professional Bank to finance a long-term development programme. The maximum limit of the loan is UAH 74 million (EUR 7.2 million), the maturity date is 11 November 2010 and the interest rate is 24%. The loan is secured with a mortgage of immovable property of a third party having the total value of UAH 88.8 million (EUR 9.2 million). As at 30 June 2010, the aggregate amount outstanding under this facility was UAH74 million (EUR 7.2 million)

- On 28 March 2007, Prometey and Ukrainian Professional Bank entered into a multicurrency Loan Agreement with a maximum limit of EUR 1million, out of which UAH 9.6 million (approx EUR 0.94) has been used by the Group as of 30 June 2010. The maturity date is 26 April 2011 and average interest rate is 16%. The agreement is secured with a mortgage of immovable property of the Group having the total value of approximately UAH 15.3 million (EUR 1.5 million), and the suretyship provided by one of the companies of the Group.

- On 25 April 2007, Prometey and Ukrainian Professional Bank entered into a multicurrency Loan Agreement with a maximum limit of UAH 20 million, which was fully used as of 30 June 2010. The loan matures on 26 April 2011. The average interest rate is 26%. The agreement is secured with a mortgage of immovable property of the Group having the total value of approximately UAH 26.3 million. (EUR 2.5 million).

Also, as of 27 August 2010, the Group is a party to the following most important financing arrangements in Russia:

UniCredit facilities

- On 29 June 2010, Ostankino (the Borrower) and Closed Joint Stock Company «UniCredit Bank» (the Lender) entered into a loan agreement with a maximum limit of RUB 125 million (approximately EUR 3 million) maturing on 9 March 2011. The interest rate is set by the Parties prior to granting the next tranche of loan by the Lender under the request of the Borrower, but the rate shall not exceed 15% per annum. Ostankino received a loan in full at an interest rate 8.75% per annum during a period from July 01, 2010 to August 04, 2010. The loan is secured by a suretyship of Yurkevych A.I. and a mortgage on the real estate. The Borrower is obliged not to conclude the contracts with the other creditors, in case the obligations of the

Company will exceed RUR 1 500 000 000 as a result of concluding such contracts, without the prior consent of the Lender.

Sberbank facilities

- On 23 April 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into an agreement on the opening of a non-revolving credit facility with maximum limit of RUB 130 million (approximately EUR 3 million) maturing on 22 April 2011. The interest rate is determined as follows: 10.5% per annum if the monthly sales proceeds received at the bank account of the Borrower with the Lender exceed 160 000 00 RUR and 12.5% per annum if the monthly sales proceeds are less than 160 000 00 RUR. The loan is secured by a suretyship of Yurkevych A.I. and a pledge of equipment. The Borrower is obliged to (a) enter into a direct debit agreement with the Lender, which would permit the Lender to debit funds for the repayment of the overdue indebtedness (b) pay arrangement fees in the amount of 1% of the commitment amount estimated as 1 300 000 RUR.

- On 10 June 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into an agreement on the opening of a non-revolving credit facility with maximum limit of RUB 105 million (approximately EUR 2.6 million) maturing on 8 June 2011. The interest rate is determined as follows: 10% per annum if the monthly sales proceeds received at the bank account of the Borrower with the Lender exceed 160 000 00 RUR and 12% per annum if the monthly sales proceeds less than 160 000 00 RUR. The loan is secured by a suretyship of Yurkevych A.I. and a pledge of equipment. The Borrower is obliged to (a) enter into a direct debit agreement with the Lender, which would permit the Lender to debit funds for the repayment of the overdue indebtedness (b) pay arrangement fees in the amount of 1% of the commitment amount estimated as 1 050 000 RUR.

- On 16 August 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into the general agreement on overdraft loans. The relevant certain terms and conditions are established by separate agreements on overdrafts. According to this agreement, the parties entered into the agreement on overdraft loan on 15 September 2010 with the maximum limit of RUB 60 million (approximately EUR 1.5 million) maturing on 15 October 2010. The interest rate is 8.5%. The Borrower is obliged to (a) pay a commission to the Lender for opening the overdraft facility equal to 2 % per annum, accruing on the amount of the overdraft limit (b) maintain the account turnover not less than 150 000 000 RUR per month. The agreement provides a penalty in the amount of 0.1 % of the overdraft limit to be paid by the Borrower to the Lender in the case of disclosure of the information concerning agreement's conditions.

TRUST facilities

- On 11 August 2010, Ostankino (the Borrower) and OJSC Natsionalniy bank «TRUST» (branch of NB «TRUST» (OJSC in Moscow) (the Lender) entered into an agreement on the granting credit in the form of credit line with the following maximum limits: RUR 120 million (approximately EUR 3 million) during a period from a date of the contract's conclusion to November 09, 2010; RUR 90 million during a period from November 10, 2010 to December 09, 2010; RUR 60 million during a period from December 10, 2010 to January 09, 2011; and RUR 30 million during a period from January 10, 2011 to February 11, 2011. The maturity date is February 11, 2011 and interest rate is 10.5%. The Borrower is obliged to (a) enter into a direct debit agreement with the Lender, which would permit the Lender to debit funds for the repayment of the overdue indebtedness (b) maintain the cash asset turnover at its account opened by the Lender, in the amount of not less than 35% of the average monthly principal receivable.

Moscow Industrial Bank facilities

- On 1 June 2010 Ostankino (the Borrower) and Joint Stock Moscow Industrial Bank (the Lender) entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUB 100 million (approximately EUR 2.6 million). The maturity date is 31 May 2011 and the interest rate is 12.5%. The loan is secured by a mortgage on the real estate. The Borrower is obliged to (i) maintain the cash asset turnover at its account opened by the Lender, in the amount of not less than 30% of all the cash proceeds, to (ii) authorize the Lender to perform direct debiting the funds from the account of the company, including those ones which were opened at the other banks and (iii) not to act as surety in respect of third parties' obligations without written Lender's consent.

- On 7 May 2010, Ostankino (the Borrower) and Joint Stock Moscow Industrial Bank (the Lender) entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUB 140 million (approximately EUR 3.5 million). The maturity date is 6 May 2011 and the interest rate is 12.5%. The loan is secured by a mortgage on the real estate. The Borrower is obliged to (i) maintain the cash asset turnover at its account opened by the Lender, in the amount of not less than 30% of all the cash proceeds; to (ii) authorize the Lender to perform direct debiting the funds from the account of the company, including those ones which were opened at the other banks and (iii) not to act as surety in respect of third parties' obligations without written Lender's consent.

City of Moscow (Moscow Food Resource Department)

On 11 December 2006, Ostankino (the Borrower) and Moscow Food Resource Department (the Lender) entered into an agreement on budgetary lending. In accordance with this agreement, on 26 January 2010 the parties signed an additional agreement for provision of the loan in the amount of RUB 191.4 million (approximately EUR 4.7 million). The maturity date is 15 February 2011 and interest rate is 4.5%. The loan is secured by a bank guarantee from Unicredit Bank.

Debt securities issuance

On 27 December 2007, Agrolite registered with the State Securities and Stock Exchange Commission of Ukraine the private placement of a total of UAH 150 million (EUR 14.5 million) 15% domestic registered unsecured bonds series A. All of the bonds have been issued. All of the proceeds from the bonds issuance were lent by the Group to an unrelated third party, Lanex Inc., as 15% interest bearing unsecured loan (see below "*Loans provided by the Group*"). The interest on the bonds is payable in twenty quarterly instalments over the period from 24 December 2007 to 16 December 2012. The principal amount of the bonds is repayable by no later than 24 December 2012. The bonds are listed on Ukrainian Stock Exchange PFTS (code - COAGLA) since 27 December 2007.

Suretyships provided by the Group for the benefit of third parties

On 19 December 2007 Myrhorod Cheese Plant has entered into suretyship agreement with OTP Bank in order to secure the obligations of DP Pilsner Ukraine under loan agreement granted by OTP Bank for the total amount of USD 13 million (EUR 9.8 million) maturing on 25 January 2013. As of 30 June 2010 the outstanding loan from OTP to DP Pilsner Ukraine amounted to EUR 5.3 million.

Deposit Agreements with Ukrainian Professional Bank

Myrhorod Cheese Plant has entered into deposit agreements with Ukrainian Professional Bank for the total amount of UAH 74.02 million (approximately EUR 7 million). Under the agreement, dated 25 August 2009, Myrhorod Cheese Plant has deposited with Ukrainian Professional Bank the funds in the amount of UAH22.77 million (EUR 2.2 million), with on annual interest rate of 24% till 29 December 2011. Later, this amount was increased, and it is currently UAH 49.02 million (EUR 4.6 million). Under the agreement, dated 30 December 2009, Myrhorod Cheese Plant has deposited with Ukrainian Professional Bank the funds in the amount of UAH 20 million (EUR 1.9 million), with an annual interest rate 24% till 29 December 2010. Later, this amount was increased, and it is currently UAH 25 million (EUR 2.4 million).

Loans Provided by the Group

On 1 December 2007 Milkiland Corporation entered into an unsecured loan agreement with Lanex, Inc., pursuant to which Milkiland Corporation provided an unsecured loan to Lanex, Inc. for the total amount of UAH 190 million (EUR 18 million) with the following interest rates: (i) UAH 150 million (EUR 14.2 million) with 15% annual interest rate which is payable on a quarterly basis, with the first payment due on 31 March 2008, (ii) UAH 3.5 million (EUR 0.33 million) with a 21% annual interest rate payable on a monthly basis, with the first payment due on 31 January 2008, and (ii) UAH 36.5 million (EUR 3.44 million) with a 22% annual interest rate payable on a monthly basis, with the first payment due on 31 January 2008. The initial repayment dates of the loan were: 24 December 2012 in relation to UAH 150 million, and 17 March 2012 in relation to UAH 40 million. On 19 May 2010, due to the partial repayment of the loan, the parties entered into the additional agreement, pursuant to which the amount of the loan was decreased to UAH 127 million (EUR 12 million) with a 15% annual interest rate payable on a quarterly basis, with a repayment date 24 December 2012. As of 30 June 2010, the aggregate amount outstanding under this loan was UAH127 million (EUR 12 million). As of the date of this Prospectus, the loan has been fully repaid by Lanex, Inc.

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 2009 also received insignificant revenues from selling products outside CIS. The Group sells its products through local retailers and through dealers and distributors as well. The Group also participates in public tenders for the sale of its products to kindergartens, schools, and other social institutions.

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

Distribution in Russia

- On 1 February 2009 Ostankino (the Vendor) agreed to supply CJSC Trade House Perekrestok (Buyer 1) with milk products. The Vendor is obliged to deliver the products in separate batches in accordance with agreed orders to the stores of Buyer 1 in the central, North-West, Volgo Vaytisky regions, indicated in the order. In 2009 the Vendor supplied to Buyer 1 products in the total amount of RUB 204,061,070 (approximately EUR 5 million). The contract has not been terminated. The parties also entered into a separate contract for delivery of the products on 1 August 2010. Under this agreement, in the period of 1 August 2010 to 31 August 2010 the Vendor delivered to Buyer 1 products in the total amount of RUB 50,785,693 (approximately EUR 1.3 million).

- On 27 September 2007 Ostankino (the Vendor) agreed to supply LLC Kopeyka- Moskwa (the Purchaser) with dairy products produced and packaged by the Vendor with the Buyer's trademark of ''Romashka''. In 2008, the Vendor has delivered products to the Purchaser of RUB 364,903,791 (approximately EUR 9 million) and in 2009 in the total amount of RUB 464,003,733 (approximately EUR 11 million). In the period of 1 January 2010 to 30 July 2010 the Vendor delivered to the Purchaser products in the total amount of RUB 318,737,625 (approximately EUR 8 million). The contract term is indefinite. Also, the parties concluded two separate contracts for delivering of the milk products on 1 July 2010. Under these agreements, in the period of 1 July 2010 to 31 August 2010 the Vendor delivered to the Purchaser products in the total amount of about RUB 100 million (approximately EUR 2.5 million).

- On 1 February 2009 the Ostankino (the Vendor) agreed to deliver to the LLC Agroaspect (Buyer 2) milk products. Under the agreement the Vendor is obliged to deliver the products in separate batches in accordance with agreed orders to the store and warehouses of Buyer 2 in the central, North-West, Volgo-Vaytisky regions, as indicated in such orders. In 2009, the Company delivered to Buyer 2 products in the total amount of RUB 979,947,613 (approximately EUR 25 million). In the period of 1 January 2010 to 30 July 2010 the Vendor delivered to Buyer 2 products in the total amount of RUB 78,555,554 (approximately EUR 2 million). The contract has not been terminated. Also, the parties entered into the separate contract for delivering of the products on 1 August 2010. Under this agreement, in the period of 1 August 2010 to 31 August 2010 the Vendor delivered to Buyer 2 products in the total amount of RUB 77,859,418 (approximately EUR 2 million).

Distribution in Ukraine

- Milkiland-Ukraine supplies dairy products to Metro on the basis of Agreement No. 21303, dated 1 January 2009. The products are supplied on a DDU basis. The agreement is valid until 31 December 2009, but it is automatically prolonged if none of the parties terminate the agreement.

- Milkiland-Ukraine supplies dairy products to Fozzi on the basis of Agreement No. 1264, dated 2 May 2008. The products are supplied on a DDU basis, and the price for each delivery shall be paid within 45 days. The agreement is valid until 23 November 2009, but it is automatically prolonged if none of the party terminates the agreement.

Export Agreements

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

- Milkiland-Ukraine entered into two agreements with LLC Ellada (the Russian Federation), the major distributor of the Group's cheeses in Russia. Pursuant to Agreement No. 224, dated 29 April 2010, for the total amount of RUB 1 billion (approx EUR 25.6 million) Milkiland-Ukraine supplies to LLC Ellada dairy products on a CPT basis either within 5 days from the prepayment date or within 5 days from the date of the invoice. This agreement is valid until 31 December 2011. Agreement No. 250 between the same parties, dated 5 February 2008, for the total amount of RUB 400 million (approximately EUR 11 million) provides for the supply of dairy products on the same terms. The agreement is valid until 31 December 2009, but it expires only after final completion of payments. Currently, both agreements are valid.

- Avtek Rent Service entered with LLC Ellada into Agreement No. 31/03-APC on 31 March 2010 for the total amount of RUB 400 million (approximately EUR 11 million). This agreement is valid until 31 December 2010, and pursuant to this agreement the dairy products are supplied on CPT basis either within 5 days from the prepayment date or within 5 days from the date of the invoice.

- On 23 June 2009, Milkiland-Ukraine and LLC Tripolia (the Russian Federation) entered into Agreement No. 288 on the supply of hard pressed cheese, processed cheese, butter and dehydrated milk, for the total amount of RUB 100 million (approximately EUR 2 million) either on a prepayment basis or payment on the basis of invoice. The purchase price also includes packaging, marking and loading. The agreement is valid until 31 December 2010.

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

Milkiland-Ukraine has also entered with Ostankino into Agreement No. M-14, dated 27 May 2009, on the supply of dairy products to Russia, for the total amount of RUB 1,5 billion (approximately EUR 36.4 million). The agreement is valid until 31 December 2010. Pursuant to this agreement the dairy products are supplied on DDU basis.

- Milkiland-Ukraine entered with VEK-Impleks (Kazakhstan) into Agreement No. 249 on 21 November 2003 on export of dairy products to Kazakhstan. The price for goods, including packaging, marking and loading, is indicated in separate specifications. The goods are supplied on the basis of prepayment. The agreement is valid until 31 December 2010.

- Milkiland-Ukraine entered with Sheriff (Moldova) into Agreement No. 298 on 10 August 2009, on export of cheese to Moldova. The price for goods, including packaging, marking and loading, is indicated in separate specifications. The goods are supplied on the basis of prepayment. The agreement is valid until 31 December 2010.

Raw Materials and Suppliers

In addition to raw milk supplies (see "*Business – Production – Raw milk supplies*"), Ostankino also sources some quantity of dry milk for its production purposes, mainly from LLC Company Moltorg, LLC Imperial, and LLC Food-City. The Group principally sources other components for production of dairy products, such as ferments, flavours, stabilizers, etc, from local and international suppliers, including LLC Prodservice, Hr. Hansen Ukraine. The materials are supplied on the basis of annual contracts or, as the case may be, on a one-off basis. Prices are negotiated based on market conditions either annually or for each individual delivery.

While the Ukrainian companies of the Group are not dependent on the supply of equipment and packaging from a single supplier, significant part of the equipment of Ostankino has been supplied by Tetra Pak, and Ostankino is dependent on Tetra Pak in supply of packaging materials. See "*Risk Factors—Risks Relating to the Group's Business and Industry— The Group is dependent on third party suppliers of its equipment and packaging materials*". The other major supplier of packaging materials for Ostankino is CJSC Elopack supplying "Pur-Pack" packaging, and CJSC Gofron-Trading. In Ukraine, the Group principally sources packaging from LLC Sealed Air Ukraine Limited, LLC Aleks-Prom, LLC Lenbud, and LLC Air-Poligraph Ukraine.

The Group uses gas, electricity and water provided by local utility companies for its production facilities. In Ukraine, the Group obtains natural gas from Gaz Ukraine, a subsidiary company of Naftogaz Ukraine, that source gas primarily from Russia. The Group's contracts for gas supply are sufficient to cover its operational needs. The maximum price for natural gas is established by a regulator and is uniform for all Ukrainian enterprises. Natural gas prices are dependent to a large extent on prices charged by Russia for gas supplied to Ukraine. See "*Risk Factors—Risks Relating to Ukraine—Regional Relationships*". The Group currently obtains electricity at regulated rates from regional power distribution companies, and at non-regulated rates from commercial suppliers. The Group has not experienced any problems with gas or electricity supply in the last five years.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. Other than the transactions with entities under common control described herein, the Group did not engage in any transactions with members of the Board of Directors during the period under review. See Note 6 to the Financial Statements and Note 7 to the Interim Financial Statements.

The Group seeks to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with relevant Ukrainian legislation. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

The Board of Directors intends to adopt, shortly after the launch of the Offering, certain procedures relating to the approval of transactions with the majority shareholder and his affiliates, including requiring the approval of independent directors (or a majority if more than two) for any transactions exceeding EUR 2 million in value. Significant transactions with related parties during the year ended 31 December 2007, 2008 and 2009, and 30 June 2010 are set out below. The Group has had no significant related party transactions during the period from 30 June 2010 to the date of this Prospectus, other than one transaction and continuations of the trading relationships described under - ‘‘-*Past and Ongoing Transactions with Other Related Parties’’* below.

The following companies and individuals are considered to be related parties to the Group.

Name of the related party	**Nature of relations with the Group**
Mr. Anatoliy Yurkevych	Chief Executive Officer of the Group and the Principal Shareholder of the Group
Ms. Olga Yurkevych	Chief Operating Officer of the Group, the Principal Shareholder of the Group, and mother of Mr. Anatoliy Yurkevych
Ms. Iryna Yurkevych	Wife of Mr. Yurkevych
Axel Management	
LLC Kray and other companies of retail business	
PJSC Bankomzvyazok and other companies of IT business	
DE BKS-Capital	Companies owned or controlled by Mr. Yurkevych
LLC City-State and other companies of real estate and construction business, including LLC Eurobudcom (Mr. Yurkevych disposed control of this company after 30 June 2010), LLC Alta Property (Mr. Yurkevych disposed control of this company after 30 June 2010), and LLC Chrystall-Invest	

Past and Ongoing Transactions with Other Related Parties

Transactions with Mr. Yurkevych

On 22 June 2010, Mr. Yurkevych entered into a suretyship agreement with PJSC Raiffeisen Bank Aval to secure Milkiland-Ukraine’s obligations under a loan agreement for the total amount of loan, the interest rate accrued on the loan, fees for the factoring financing, as well as fines and penalties. Also, Mr. Yurkevych provided the personal guarantee under the loan agreements with Closed Joint Stock Company “UniCredit Bank” (dated 29 June 2010) and Joint Stock Commercial Bank Sberbank of the Russian Federation (dated 23 April 2010 and 10 June 2010). See “*Material Contracts – Financing Arrangements*” for more details.

Krai Retail Network

The Group distributes its dairy products through Krai, a retail network, which is an extensive network of points of sale including specially equipped trucks, stationary market stands, stores or concessions within bigger retail stores at which Ukrainian customers customarily purchase dairy products. The Group and Krai are related parties, which aim to conduct all transactions on market terms. Milkiland-Ukraine has entered into supply agreement with Krai. In 2009, the amount of sales by the Group to Krai was approximately EUR 2.7 million.

Sale and Purchase of Corporate Rights

On 13 December 2007, 1, Inc., entered into a preliminary contract to sell 100% of shares held by it in Milkiland Corporation to Axel Management Inc., a related party, for a purchase price of EUR 2,400,00.00 amended on 14 December 2007. On 30 January 2008 the parties entered into the final contract for the purchase and sale of these shares. On 13 December 2007 Axel Management Inc., entered into a preliminary contract to sell 100% of shares held by it in Milkiland Corporation to Milkiland B.V., amended on 14 December 2007. On 30 January 2008, Axel Management Inc., entered into a sale and purchase contract with Milkiland B.V., for the sale to the latter of 100% of shares held by it in Milkiland Corporation for a purchase price of EUR 2,410,000. On 17 November 2008 the Issuer entered into a sale contract with Milkiland-Ukraine to sell 100% of shares held by it in Milkiland Corporation to the latter for the price of USD 10,000. On 18 November 2008 the Issuer and Milkiland-Ukraine enter into an act of transfer and acceptance of the transfer of the shares held over Milkiland Corporation and on 17 December 2008 they entered into an agreement which terminated the agreement dated 17 November 2008 between them.

Financing Arrangements

As a part of restructuring of Ukreximbank loans, on 21 December 2009 and on 12 January 2010 Milkiland-Ukraine, Ross, Prometheus and Aromat assigned a portion of their loan portfolio to LLC Alta Property and LLC Eurobudcom, the related parties, for the total amount of UAH 83.9 million (approximately EUR 7.9million) and USD 24.8 million (EUR18.6 million) respectively, pursuant to the following agreements:

- Contract on transfer of credit obligations from Milkiland-Ukraine to LLC Alta Property, dated 21 December 2009, for the outstanding credit obligations for the amount of UAH 83,867,181.56 (approximately EUR 7.9million);

- Contract on transfer of credit obligations from Milkiland-Ukraine to LLC Eurobudcom, dated 12 January 2010, for the outstanding credit obligations for the total amount of USD 23,020,425.53 (EUR 17.3 million) and UAH 63,983.31 (approx EUR 6 thousand);

- Contract on transfer of credit obligations from Ross to LLC Eurobudcom dated 12 January 2010, for the outstanding credit obligations for the total amount of USD 595,434 (EUR 450 thousand) and UAH 3,076 (EUR 300);

- Contract on transfer of credit obligations from Aromat to LLC Eurobudcom dated 12 January 2010, for the outstanding credit obligations for the total amount of USD 595,434 (EUR 450 thousand) and UAH 3,076 (EUR 300); and

- Contract on transfer of credit obligations from Prometheus to LLC Eurobudcom dated 12 January 2010, for the outstanding credit obligations for the total amount of USD 595,434 (EUR 450 thousand) and UAH 3,076 (EUR 300).

As of 30 June 2010 the Group settled in full its debt on assigned loans to LLC Alta Property and the unsettled balance with LLC Eurobudcom was UAH 1.6 million (EUR 0.15 million). As of the date of this Prospectus, the debt to LLC Eurobudcom has been fully settled by the Group.

In order to settle the Group's debt to LLC Eurobudcom, Milkiland-Ukraine has borrowed funds from another related party, LLC Chrystall-Invest for the total amount of approximately EUR 11 million. These funds have been borrowed pursuant to the Agency Agreement, entered into between Milkiland-Ukraine and LLC Chrystall-Invest on 8 June 2010. Pursuant to this agreement, LLC Chrystall-Invest made an advance payment to Milkiland-Ukraine in the amount of EUR 11 million. The agreement was terminated on 24 June 2010, and as of the date of this Prospectus Milkiland-Ukraine has returned the whole amount of the advance payment to LLC Chrystall-Invest.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Issuer has a one-tier corporate governance structure and is administered and managed by a Board of Directors.

Composition, Powers and Functioning

The Issuer has a one-tier board structure consisting of executive and non-executive Board of Directors' members.

The Board of Directors as a whole is charged with the Company's management. The Board of Directors is required to consist of executive directors and non-executive directors. All members of the Board of Directors may be appointed and/or dismissed by the General Meeting of Shareholders.

The Board of Directors may charge 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 decision taken thereby. The executive director(s) may subsequently determine which operational duties will be carried out by each of the executive director(s). The non-executive director(s) are charged with the supervision of the general policy and the fulfilment of duties by the executive directors and the general affairs of the Company.

Under the Articles of Association, resolutions of the Board of Directors require approval of the general meeting when these relate to an important change in the identity or character of the company or the undertaking, including in any case:

- a transfer of the business of the Company to a third party;
- a termination of any long-term co-operation of the Company with another legal entity or company or as a fully liable partner in a limited or general partnership if such co-operation or termination is of far-reaching significance to the Company;
- an acquisition or disposal by the Company or by a subsidiary of the Company of a participation in the capital of another company with a value of at least one third of the amount of the assets according to the balance sheet in the most recently adopted annual accounts of the Company.

Members of the Board of Directors

As at the date hereof, the Issuer's Board of Directors is composed of four directors. The table below sets forth the names, respective ages and business addresses of the members of the Board of Directors.

Name	Age	Position/Class/Function	Business address
Anatoliy Yurkevych	41	Chairman / non-executive director	9 Boryspilska str, 02099, Kyiv
Olga Yurkevych	63	Member of the board /COO/ executive director	9 Boryspilska str, 02099, Kyiv
Vyacheslav Rekov	35	Member of the board /CEO/ executive director	9 Boryspilska str, 02099, Kyiv
Pavlo Yokhym	37	Member of the board / executive director	Reinwardtstraat 232, 1093 HP Amsterdam, the Netherlands

Anatoliy Yurkevych, Olga Yurkevych, Vyacheslav Rekov were appointed on 28.08.2007. Their term of office will expire at the annual General Meeting convened to approve the annual accounts of the Issuer for the financial year that will end on 31 December 2011. Pavlo Yokhym was appointed on 09.05.2008. His term of office will expire at the annual General Meeting convened to approve the annual accounts of the Issuer for the financial year that will end on 31 December 2012.

It is the Issuer's intention that immediately after the Offering the Board of Directors would consist of at least two non-executive members fulfilling the criteria of independence (described in the Articles of Association) from the Issuer, its affiliates and shareholders holding at least five percent (5%) of the total number of votes at the General Meeting of Shareholders.

As of the date of the Prospectus the Issuer has signed a commitment letter with Mr. Willem van Walt Meijer as non–executive member of the Board of Directors. Mr. van Walt Meier will start performing his duties immediately after the Offering and listing of the Shares. The Issuer is currently searching for the second non-executive director.

The following is a summary of the relevant expertise and experience of the current members of the Issuer's Board of Directors.

Anatoliy Yurkevych, PhD., was appointed Chairman of the Board of Directors on 28 September 2007. Mr. Yukevych is the founder of Milkiland. He is an entrepreneur, and an accomplished businessman in many fields outside of the dairy sector. Mr. Yukevych is a Ph. D holder in Information and Technology, was former Deputy Chief of the Kiev Regional Government Administration, Mr. Yurkevych is a board member of several companies such as 'Bankcomzvyazok', and residential real estate development project of 'City-State', both of which he founded.

Vyacheslav Rekov is the Group's President and CEO since 2003, serving as the Issuer's Board Member since 2007. Vyacheslav has joined the Group in 2001 as Chief Financial Officer, and since that time played a key role in the Group's strategic development and day-to-day operations. Mr. Rekov's prior professional experience includes positions of Deputy Director for Economics at JSC "Illichivsk Sea Fish Port"; Financial Director at JSC "Ocean Fish" Illichivsk; and Director of JSC "Odessa Bakery Plant #2". Mr. Rekov received his Masters in Management from Odessa State Economy University.

Olga Yurkevych, a Board Member and COO at the Issuer since 2007, has also been with the Group for a long time. In 1997 she started in the Group and in 2000 was appointed as Director of Nizhyn Dairy Plant. In 2002-03 Ms. Yurkevych ran the newly acquired Mena Cheese Plant and contributed to its major turnaround and modernization. Ms. Yurkevych posseses broad managerial experience obtained during her tenure in a number of public and private companies. Prior to joining the Group she headed Financial Planning Department of Chimkent's Regional Administration, Regional Consumer's Association of Chimkent. Ms. Yurkevych holds Masters degree from Lviv Trade and Economy Institute.

Pavlo Yokhym was appointed to the Board of Directors of the Issuer in May 2008. During his career Mr. Yokhym has held managerial positions in numerous companies incorporated in the Netherlands. He gained his credentials also during constant education all over the Europe. He holds a diploma in global management obtained from ESC Toulouse and in Commercial Economics from the High School of Amsterdam. In October 2010 Mr. Yokhym is expected to graduate from MBA course in global management studies organized by the London School of Business & Finance.

Willem van Walt Meijer signed a commitment letter with the Issuer in September 2010, to serve as a non-executive Board member for the Group. His tenure will commence immediately after the listing of the Issuer's shares. Mr. van Walt Meijer started his career at Unilever in 1983 and spent more than 20 years there, embracing executive positions in different regional offices of Unilever, including the Netherlands, Ireland, Indonesia, and Russia. After leaving Unilever Willem worked for Friesland as Managing Director of Cheese Division (2006-08) and Leader of Classic Dairy Division (2008). Starting from end 2008 and until now Mr. van Walt Meijer is the Board's Chairman of Midoceanbrands, one of a leading European distributor of promotional products. Willem holds a degree in economics from State University of Groningen, and has accomplished post graduate studies at Harvard University and Kellog School of Management.

Key Executives

In the opinion of the Issuer, apart from the Board of Directors members, the following persons are the most important for the Group **(the "Key Executives").** Business address of Key Executives is 9 Boryspilska str, 02099, Kyiv.

Julia Zakharova joined the Group in September, 2010 as the Group's Chief Financial Officer. Prior to joining the Group Ms. Zakharova had over 15 years of experience in Coca Cola, holding various executives positions and most recently CFO position in Coca Cola Hellenic Ukraine. Ms. Zakharova possesses broad experience in Financial Planning, Treasury Management, Strategy, and People Development. She graduated from Nizhny Novgorod State University, and accomplished a number of training programs through IMD, MTI, and Coca-Cola. Ms. Zakharova also holds CIMA (Chartered Institute of Management Accountants) qualification.

Tatiana Garanko is the Group's Head of Treasury. Ms. Garanko joined the Group in 1999 as an accountant. During her tenure in the Group she held various finance positions and in 2004 was promoted to the Head of Treasury. Ms. Garanko holds Bachelors and Masters Degree in Information Systems and Technologies from the Kyiv National Economic University. She also holds CIMA (Chartered Institute of Management Accounting) qualification.

Oleksiy Arkhipov is the Group's IFRS manager. Prior to joining the Group in 2009 Mr. Arkhipov acted as Chief Investment Officer of the Interregional Investment Union of Kyiv, responsible for financial, legal and technical due diligence, corporate planning and strategy and financing. Oleksiy spent 5 years in PricewaterhouseCoopers's Kyiv's office and was promoted to senior auditor. Oleksiy is ACCA qualified and holds s Masters Degree in Accounting and Auditing from the Kyiv National Economic University.

Olga Stepanenko is the Group's manager responsible for technology, product quality, and sanitation. Prior to joining the Group in 2003, she held a Chief Engineer position in Ukraine's State Standards Bureau and was responsible for product certification. She also spent 9 years as Cheif Technical Engineer at Kyivskiy Molochniy Zavod (now Wimm-Bill-Dann). Olga holds a Technical degree from the Odessa Institute of Technology.

Marek Stelmaszuk is the Group's new product development manager responsible for production technology and recipes. After joining the Group in 2007 Mr. Stelmaszuk successfully launched production of specialty cheeses type such as gouda, camembert, Roquefort, and gorgonzola. He started his career in dairy industry in 1991 as a cheese technologist at OSM Gorowo Ilaw (Poland) and accumulated an in-depth experience in dairy industry, working at Warmia Dairy Lidzbark Warm (Poland), Rhodia Food Biolacta (Poland, Russia, Kazakhstan), CSK Food Enrichment (Poland, Latvia, Ukraine).

Julia Alekseyeva is the Group's lawyer, also serving as a Director for several of the Group's affiliates. Prior to joining Milkiland, Ms. Alekseeva was a Senior Lawyer at Sumy Dairy Plant for several years. She started her career at a local dairy cooperative. Ms Alekseeva holds Degrees in Law from the College of Law of the Sumy Agrarian University., and from the Kharkov National University of Internal Affairs.

Raisa Grytsenko joined the Group in 2009 as Head of Human Resources. Ms. Grytsenko has significant experience in Human Resources with several companies such as Access and the American Distribution Committee. She also spent 10 years as a Branch Director for Kyiv Avia, and several years as Director of one of the most prestigious private school in Ukraine. Ms. Grytsenko is a professional teacher and holds a MBA Degree from Moscow Management Institute.

Victor Rzhavichev, PhD., is responsible for securing raw milk supply for the Group since 2007. Prior to joining Milkiland, Mr. Rzhavichev was National Raw Material Director for Shostka Milk Plant, and brought with him over 10 years of experience in procurement, and commercial sugar production & trading, as Commercial Director, for Rodan Capital and Kazan Sugar Plant. Originally trained as a Veterinary Physician, Mr. Rzhavichev went on to become a Doctor of Veterinary Medicine from the National Agrarian University, in addition to receiving a Degree in Administrative Management.

Bogdan Cheremkha. PhD., joined the Group in April 2010, as Head of Agricultural Division and is responsible for development of the Group's own milk production. Prior to joining the Group Mr. Cheremkha worked at AgroMars, one of Ukrainian leading poultry producers, where he spent 9 years as Director of Agriculture Division. Prior to this, Mr. Cheremkha pursued research at Scientific and Production Center 'Visokiy Urozhai' (1996-01) and Mironov Research Institute (1991-96). He holds a PhD. in Agricultural Science from Mironov Research Institute.

Igor Zinkevich in 1997-2000 worked as sales director at one of Mr. Yurkevych's companies. Between 2001 and 2010 Igor held executive commercial positions at Continium holding (milk processing, oil refining, gas stations) and Pakko Group, a leading regional chain of supermarkets in Ukraine. In 2010 Mr. Zinkevich joined Milkiland as Commercial Director. He holds a Degree in Engineering Degree from Kiev Polytechnic Institute and a Degree in Economics from Kyiv Institute of National Economy.

Directorships of Members of the Board of Directors and Key Executives

The following table sets out additional past and current directorships held by the Issuer's Board of Directors' members and Key Executives in the past five years:

Name	Positions Held
Anatoliy Yurkevych	**Current:** Chairman of the board of directors of Ostankino from August 2008, Member of the supervisory board of LLC City State from September 2008, Director of 1, Inc. from August 2007, Chairman of the board of directors of Mixnet B.V. from September 2007, Operational director of Cit-State N.V., Chairman of the board of directors of Karaina Ltd. from January 2010.

	Former:
	Chairman of the Supervisory Board of PJSC Bankomvzyazok from December 2000 to April 2005, Director of the LLC City-State from August 2007 to September 2008, Chairman of the Board of Directors and President of 1, Inc from December 2000 to April 2005, Chairman of the Board of Directors of Ditel Inc. from June 2000 to April 2005, Chairman of the Board of Directors of Group Mass Media Corporation from July 2000 to April 2005, Chairman of the Board of Directors Lanex Inc. from July 2000 to April 2005, Chairman of the Board of Directors of Krai Corporation from November 2002 to April 2005, Director of LLC Krai from November 2002 to April 2005.
Pavlo Yokhym	**Current:**
	Member, from May 2008, of boards of directors: of Mixnet B.V., City-State N.V., 1, Inc. Cooperatief U.A., R-Assets Cooperatief U.A. and ComArt Cooperatief U.A.
Tetiana Garanko	**Current:**
	Director of PE Ross and Syr-Trading Ltd, both since 2006
Igor Zinkevich	**Former:**
	From August 2005 to October 2009 board member of Pakko Holding Lutsk

Shares and Share Options held

Except for Mr. Anatoliy Yurkevych, the Chairman of the Board of Directors, who indirectly holds 50.89% of the Issuer's shares, Ms. Olga Yurkevych, the Chief Operating Officer, who indirectly holds 43.11% of the Issuer's shares, and Mr. Vyacheslav Rekov, the Chief Executive Officer, who indirectly holds 6% of the Issuer's shares, no member of the Issuer's board of Directors nor any Key Executive holds any shares or stock options over such shares in the Issuer.

At the date of this Prospectus, the Issuer has no arrangements in place for members of the board of Directors, Key Executives or Group employees pursuant to which such persons can acquire shares or options of such shares in the Issuers' capital or its subsidiaries.

Committees

As at the date of this Prospectus, the Board of Directors has decided to appoint the Audit Committee from among its members. The Audit Committee will commence its activity after the Offering and listing on the WSE and primarily will be composed of 2 members of the Board of Directors. Finally the Audit Committee will be composed of three members while two of them will have non–executive status.

The Issuer decided to establish only an audit committee. The tasks and duties contemplated by an remuneration committee and selection and appointment committee are performed by the entire Board of Directors.

Audit Committee

The Audit Committee will be responsible for supervising the Board of Directors activities with respect to:

– operation of internal risk management and control systems, including supervision of the enforcement of relevant legislation and regulations;

– provision of financial information by the Issuer (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial accounts, forecasts, work of internal and external auditors, etc.);

– compliance with recommendations and observations of internal and external auditors;

– the role and functioning of the Issuer's audit department;

– the Issuer's tax planning policy;

– the Issuer's relations with the external auditor, including, in particular, its independence, remuneration and non-audit services for the Issuer; and

– the financing of the Issuer.

The role and responsibilities of the Audit Committee, as well as its composition and the manner in which it operates and discharges its duties, are set out in regulations for the Audit Committee, as drawn up by the Board of Directors. The Audit Committee regulations and its composition will be placed on the Issuer's website. As the members of the Audit Committee will be appointed Mr. Willem van Walt Meijer, Mr. Anatoliy Yurkevych and the second non-executive member of the Board of Directors who will be appointed by the Issuer promptly after the Offering., Mr. Willem van Walt Meijer will be appointed the Chairman of the Audit Committee and is considered to be the financial expert, as referred to in the Dutch Corporate Governance Code and the Dutch Act on Supervision on Audit organisations. The Audit Committee meets as often as one or more members of the Audit Committee deems necessary, but in any event will meet at least once a year with the Issuer's external accountant, without the Board of Directors being present.

Remuneration and Terms of Service Contracts

The general policy with regard to the remuneration of members of the Board of Directors shall be adopted by the General Meeting of Shareholders. The current remuneration policy will be adopted by the General Meeting of Shareholders not later than at the first meeting after the listing of the Shares on the WSE.

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

In 2009, the members of the Board of Directors did not receive any remuneration in the Issuer as well as from subsidiaries, except for Mr. Pavlo Yokhym, who received in 2009 EUR 52,156 as a Director's fee. The aggregate remuneration (including benefits in kind) paid to Key Executives in 2009 totalled EUR 641,000.

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

The members of the Board of Directors and Key Executives are not granted any pensions, retirement or similar benefits by the Issuer or the Group Subsidiaries.

Certain information on the members of the Board of Directors and of the Key Executives

Within the past five years, no member of Board of Directors and no Key Executive:

- has been convicted of any offences relating to fraud;
- has been the subject of any official public incrimination or has been sanctioned by statutory or regulatory authorities (including professional associations);
- there are no other family relationships among the members of the Management Board, the Supervisory Board and Senior Management except family relationship between Mrs. Olga Yurkevych and Mr. Anatoliy Yurkevych. Mrs. Olga Yurkevych is mother of Mr. Anatoliy Yurkevych;
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conducting the affairs of any company; or
- has been associated with any bankruptcy, receivership or liquidation, or similar proceedings, in their capacity as members of any administrative, managing, or supervisory body or as a senior executive.

No member of the Board of Directors and no member of the Key Executives hold a supervisory or a non-executive position in any other listed company or perform principal activities outside the Issuer which are significant with respect to the Issuer.

There are no actual or potential conflicts of interest between the obligations of the members of the Board of Directors members and the Key Executives, except Mr. Anatoliy Yurkevych and Ms. Olga Yurkevych, toward the Issuer and their respective private interests and duties or obligations to the Issuer.

There is a potential conflict of interest between private interests of Mr. Anatoliy Yurkevych and Ms. Olga Yurkevych and the interests of the Issuer , see *The Group has been and will continue to be controlled by two majority shareholders, and depends on the services of Chief Executive Officer and Chief Operating Officer*.

There are no arrangements or understandings with principal shareholders of the Issuer, customers, suppliers or others pursuant to which any member of the Board of Directors or of the Key Executives was selected or appointed.

Corporate Governance Rules

Although the Issuer will be listed on the WSE, it will be still required to apply the Dutch Corporate Governance Code since the Code applies to all Dutch companies listed on a government-recognised stock exchange, whether in the Netherlands or elsewhere. However, the application of the Dutch Corporate Governance Code is not compulsory and is subject to the "comply or explain" principle.

The Netherlands

Such Dutch companies are required under the laws of the Netherlands to disclose in their annual reports whether or not they apply those provisions of the Dutch Corporate Governance Code that are addressed to the managing board or, if any, supervisory board of the company and, if they do not apply those provisions, to give the reasons for such non-application. The Dutch Corporate Governance Code recognises that non-application of its Best Practice Provisions is not in itself objectionable and indeed may be justified under certain circumstances.

The Issuer acknowledges the importance of good corporate governance and intends to apply with Dutch corporate governance codes as wide as it is practicable. Notwithstanding, the Issuer will not comply with the following rules of the Dutch Corporate Governance Code:

Principle III.8 states that:	the composition and functioning of a one tier board shall be such that proper and independent supervision by the non-executives members of such board is assured. In connection with this Principle III.8, the Company acknowledges that the current composition of the board is not independent as referred to in the Dutch corporate Governance Code, however believes that the Company has sufficient risk and control mechanism in place to assure proper supervision.
Best Practice provision III.8.1 states that:	the chairman of the Board of Directors may not also be or have been an executive director. In connection with this Best Practice provision III.8.1, the Company however believes that it is in the best interest of the Company and the Group to maintain Mr. Anatoliy Yurkevych as Chairman of the Board of Directors due to his extensive knowledge of the Group's business.
Best Practice provision III.8.3 states that:	the Board of Directors shall apply chapter III.5 of this code. The committees referred to in chapter III.5 shall consist only of non-executive Board of Directors member. In connection with this Best Practice provision III.8.3,, the Company however believes that it is currently in the best interest of the Company that no specific committees are formed, however the entire board of Directors shall conduct the duties of such committees.
Best Practice provision III.8.4 states that:	The majority of the members of the Board of Directors shall be non-executive directors and are independent within the meaning of the Dutch Corporate Governance Code. In connection with this Best Practice provision III.8.1, the Board of Directors of the Issuer is currently composed as such that it has no majority of non-executive directors. The Company believes however that the current composition of the Board of Director is such that it will provide for proper management and supervision.

Further deviations (if any) from the Best Practice Provisions of the Dutch Corporate Governance Code will be included and explained in the Company's annual report 2010.

Poland

Warsaw Stock Exchange, on which the Shares will be listed have their own corporate governance code, it is the Code of Best Practice for WSE Listed Companies ("WSE Corporate Governance Rules"). With respect to the code the "comply or explain" principle is applied. The Issuer will be obliged to report on each non-compliance together with a justification of such non-compliance and should include summary information on non-compliance with the WSE Corporate Governance Code in the annual report.

The Issuer has decided to observe the majority of the WSE Corporate Governance Rules. However, certain principles will apply to the Issuer only to the extent allowed by Dutch corporate law and corporate structure of the Milkiland Group, especially the single board structure as opposed to the two-tier system that the WSE Corporate Governance Rules assume. The Issuer does not have two separate governing bodies (supervisory board and management board) which are obligatory in Polish joint stock companies. Instead, its Board of Directors performs both the management and supervisory functions. As a result, the Issuer will apply those principles of the WSE Corporate Governance Rules which refer to relations between supervisory boards and management boards not directly, but accordingly.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

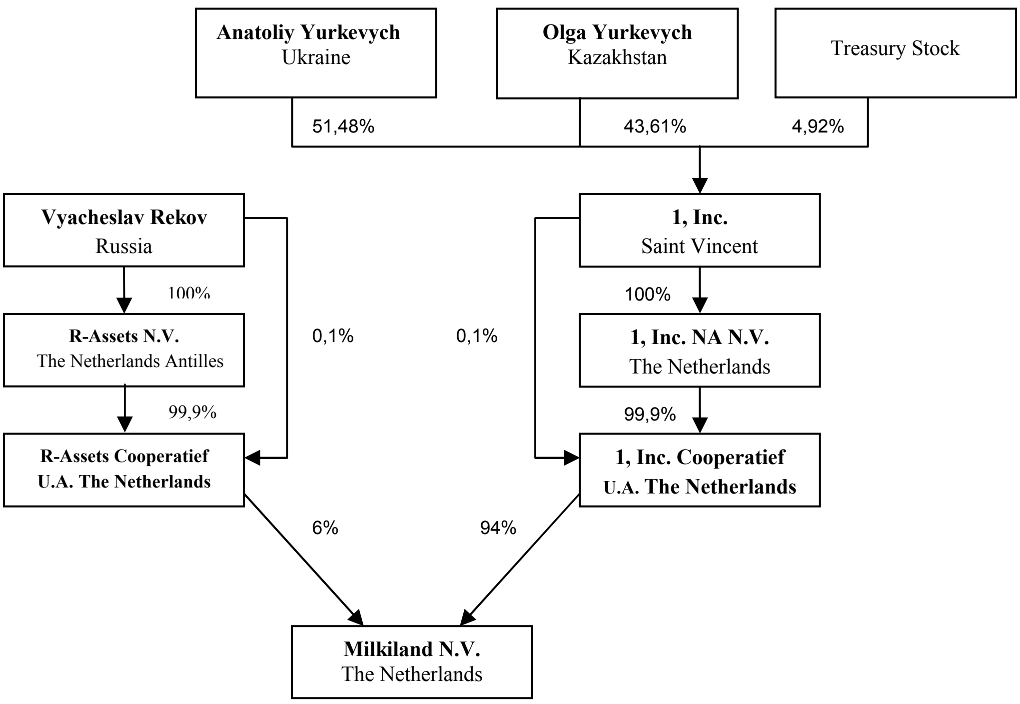
Principal Shareholders

The ultimate beneficial owners of 100% of shares in the Issuer are Mr. Anatoliy Yurkevych a citizen of Ukraine, Ms. Olga Yurkevych a citizen of the Republic of Kazakhstan and Mr. Vyachelsav Rekov a citizen of Russian Federation (together the “Indirect Shareholders”). Mr. Anatoliy Yurkevych indirectly holds 50.89% of shares in the Issuer, Ms. Olga Yurkevych holds 43.11% of shares in the Issuer, and the remaining 6% of the Shares in the Issuer are held by Mr. Rekov.

Mr. Anatoliy Yurkevych together with Ms. Olga Yurkevych are beneficial owners of 94% of Shares of the Issuer. The legal owner of the shares is 1, Inc. Cooperatief U.A., a cooperative established under the laws of the Netherlands on 31 January 2008, with its address at Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands. 99% shares of 1 Inc. Cooperatief U.A. are held by 1, Inc. NA N.V. a company established under the laws of the Netherlands Antilles on 28 September 2007, with its address at Kaya Richard J. Beaujon Z/N, Curacao, the Netherlands Antilles. The entire share capital of 1, Inc. NA N.V., as well as 0.1% of shares of 1, Inc. Cooperatief U.A. is held by 1, Inc. a company established under the laws of Saint Vincent and the Grenadines on 31 October 2000, with its address at 78 Halifax Street (3rd floor), P.O. Box 726, Kingstown, Saint Vincent and the Grenadines. 54.48% shares in 1, Inc. are owned by Mr. Anatoliy Yurkevych, 43.61% of shares in 1, Inc. are owned by Ms. Olga Yurkevych, and the remaining 4.92% of shares are held by 1, Inc. as treasury shares. All mentioned companies are special purpose companies and do not have any operations other than holding shares.

Mr. Vyacheslav Rekov holds the remaining 6% of Shares in Milkiland N.V. through R-Assets Cooperatief U.A., a cooperative established under the laws of the Netherlands on 18 March 2008, with its address at Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands. 99.9% shares of R-Assets Cooperatief U.A. are held by R-Assets N.V., a public limited liability company established under the laws of the Netherlands Antilles on 8 February 2008 with its address at Kaya Richard J. Beaujon Z/N, Curacao, the Netherlands Antilles. The remaining 0.1% shares of R-Assets Cooperatief U.A. is owned by Mr. Vyacheslav Rekov. An ultimate owner of shares in share capital of R-Assets N.V. is Mr. Vyacheslav Rekov. Both companies are special purpose holding companies and do not have any operations other than holding shares in the Issuer.

Below please find the chart describing ownership structure of the Issuer.



Shareholding Structure

The tables below indicate the Company's shareholding structure as at the date of this Prospectus and after the Offering:

Beneficial owners of the Issuer's Shares

	Shares beneficially owned prior to the Offering		Shares owned after the Offering(1)		Shares owned after the Offering(2)	
Shareholder	**Number**	**%**	**Number**	**%**	**Number**	**%**
R-Assets Cooperatief U.A.	1,500,000	6.0	1,500,000	4.8	1,500,000.0	4.8
1 Inc. Cooperatief U.A. ...	23,500,000	94.0	23,500,000	75.2	22,750,000.0	72.8
Public	--	--	6,250,000	20.0	7,000,000.0	22.4
Total	**25,000,000**	**100.0**	**31,250,000**	**100.0**	**31,250,000.0**	**100.0**

(1) Assuming complete subscription without exercise of the Over-allotment Option;
(2) Assuming complete subscription for the Offer Shares in the Offering, and full exercise of the Over-allotment Option.

Selling Shareholder

1, Inc. Cooperatief U.A., a cooperative established under the laws of the Netherlands on 31 January 2008, with its address at Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands.

The nature of any position office and material relationships between the Issuer and the Selling Shareholder

Apart from holding the positions of the Chairman of the Board of Directors and the member of the Board of Directors of the Issuer by Mr Anatoliy Yurkevych and Ms. Olga Yurkevych - the indirect shareholders of the Selling Shareholder and holding the position of the Chairman of the board of directors of Ostankino from August 2008, by Mr. Anatoliy Yurkevych (see. *Directorships of Members of the Board of Directors and Key Executives*) as well as several transaction between the Issuer and the companies cotrolled by Mr. Anatoliy Yurkevych (see. *Related Party Transactions*) there are no other material relationships between the Issuer and the Selling Shareholder.

DESCRIPTION OF THE SHARES AND CORPORATE RIGHTS AND OBLIGATIONS

The following is a summary of certain information in relation the Company and of certain significant provisions of Dutch corporate law and the Articles of Association. This summary is intended to contain all material information in relation to the Company and the rights attaching to the Shares and in relation to the Articles of Association of the Company, but does not purport to be complete. This summary is qualified entirely by reference to the Articles of Association, which can be obtained from the commercial register in Amsterdam, and by Dutch law in effect at the date of this Prospectus.

General Meeting

The Issuer, as a Dutch company, must hold at least one annual General Meeting of shareholders, to be held in the Netherlands and not later than six (6) months after the end of the financial year. The annual General Meeting is, among other things, entitled to discuss the annual report of the Board of Directors with respect to the general state of affairs of the Issuer, approve the financial statements for the previous financial year, vote whether to grant discharge to members of the Issuer's corporate bodies, and/or appoint members to fill any vacancies on any of the corporate bodies. Notices of shareholders meetings must be published on the Issuer's website and also in accordance with applicable regulations in Poland – at least forty two (42) days before the day of the meeting. The Board of Directors determines the items on the agenda for the General Meeting. In addition, any shareholders holding more than 1% of issued and outstanding shares or who hold shares having the value of 50 million EUR or more may submit proposals for inclusion on the agenda of any General Meeting. The proposals have to be included on the agenda, provided the Issuer receives such proposals no later than sixty (60) days before a General Meeting.

An extraordinary General Meeting may be convened, whenever the Issuer's interests so require, by the Board of Directors. A single shareholder or those representing, in aggregate, at least 10% of the issued and outstanding share capital may also call an extraordinary General Meeting with an agenda to be determined by the shareholders calling the meeting.

Under Dutch law, valid shareholders' resolutions can be taken in a meeting outside the Netherlands, provided that the entire issued share capital is represented at such meeting.

Voting at General Meeting

Shareholders may participate in the General Meeting and exercise their voting right personally or by proxy. Each share in the capital of the Issuer confers the right to cast one vote, subject to the relevant provisions of the Articles of Association. The Issuer considers other solutions which in future may facilitate shareholders to participate in the meeting.

Every holder of shares and every other party entitled to attend the General Meeting who derives his rights from such shares, is entitled to attend the General Meeting in person, or represented by a person holding a written proxy, to address the General Meeting and, in as far as he has voting rights, to vote at the meeting, if he has lodged documentary evidence of his voting rights.

For this purpose, Dutch law prescribes a mandatory record date to establish which shareholders are entitled to attend and vote at the General Meeting. Such record date is fixed at the twenty eighth (28th) day before said General Meeting. The voting rights and the right to attend the General Meeting shall accrue to those holding such entitlements and registered as such in a register designated for that purpose by the Board of Directors on this record date. The convocation to the General Meeting shall state the record date, the place where and the manner in which registration shall take place.

Unless provided otherwise in the Articles of Association or the law, all resolutions are adopted by absolute majority of votes. The Issuer must record the voting results for each resolution adopted at a shareholders' meeting. These results must be posted on the Issuer's website not later than on the fifteenth (15th) day following the day of the shareholders' meeting and should be available on the website for at least one year.

Detailed information regarding participation and voting at General Meetings will be included in the notice of the General Meeting published in accordance with relevant regulations in the Netherlands and Poland.

Challenging Resolutions of General Meetings

Under Dutch law the conflict of law rules, a resolution of the general meeting of shareholders of a Dutch company may only be appealed to a Dutch court in accordance with the Dutch company and civil proceedings law.

Pursuant to Dutch law, a resolution of the general meeting of shareholders may be appealed by each shareholder regardless of the number of shares held by him, if the resolution is (i) in conflict with the statutory law, provisions of the articles of association on the proceedings for taking resolutions, (ii) in conflict with principles of reasonableness and fairness as set forth in Art. 2.8 of the Dutch Civil Code; or (iii) in conflict with the internal regulation of the company itself (inter alia the articles of association). Art. 2.8 of the Dutch Civil Code includes a general clause which appeals for the exercise of corporate rights and obligations in compliance with principles of reasonableness and fairness.

The appeal should be filed with a district court having jurisdiction over the relevant company's seat within the period of one year starting from the day of publication of such a resolution. In the case of the Issuer the competent court is the District Court of Amsterdam, the Netherlands. The plaintiff should show a legal interest in appealing against the resolution. Under Dutch civil proceedings rules, the appeal should be filed in the Dutch language and should be signed by an attorney qualified to practice in the Netherlands. Generally, the appeal will be subject to court fees. If the court finds in favour of the appealing shareholder than the resolution will be nullified (vernietigd).

Similarly, under Dutch law each shareholder also has a right to appeal any action of other governing bodies (i.e. the Management Board) on the same grounds as specified above. The same appeal procedure will apply.

.Annual Accounts

Annually, within four months after the end of the financial year, the Board of Directors shall prepare the annual accounts and shall make them available free of charge for inspection by the Shareholders at the offices of the Issuer. The Issuer shall further make the annual accounts, together with the auditor's statement and the annual report available for public and shall keep such information available for at least five years. The Board of Directors shall furthermore publish the annual accounts in a public register of the AFM following adoption thereof by the General Meeting and issue a press release announcing the publication of the annual accounts. The annual accounts shall furthermore be filed with the Chamber of Commerce of Amsterdam and made public on their website. The annual accounts must be accompanied by an auditor's statement, the annual report and certain other information required under Dutch law. The annual accounts shall be signed by the members of the Board of Directors.

The annual accounts, auditor's statement, annual report and other information required under Dutch law must be made available to Shareholders for review from the date of the notice convening the annual General Meeting. The annual accounts shall be adopted by the General Meeting and will be sent to the AFM within five (5) days after adoption. Within two (2) months after the end of the first six (6) months of the financial year, the Board of Directors shall prepare the semi-annual financial reporting and shall make it publicly available. If the semi-annual financial reporting is audited, the auditor will make the auditors statement publicly available as well along with the semi-annual financial reporting.

Distribution of Profits

The company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the company's shareholders equity exceeds the aggregate nominal value of all of the company's issued and outstanding shares plus the amount of any reserves that the company is required to maintain pursuant to the articles of association or the provisions of applicable law.

Any distribution of profits will be made after the adoption of the annual accounts showing that such distribution of profits is permitted. Each shareholder is entitled to dividends pro rata to the number of shares held by such shareholder. The Board of Directors shall determine which portion of the profits shall be reserved. The profit remaining less such reserved portion, if any, shall be at the disposal of the General Meeting. The General Meeting may resolve to partially or totally reserve such remaining profit. The Board of Directors may resolve to pay interim dividends or to make distributions to shareholders from share premium or other reserves. The General Meeting decides what part of profits for any year will be distributed as a dividend and which portion of profits for such year will be added to reserves.

Dividends not claimed by shareholders within five years of the date they are payable are forfeited and will be retained by the Issuer. Under Dutch law and the Articles of Association, there is no restriction on the ability of the Issuer to pay dividends to non-Dutch shareholders and there are no special procedures applicable to the payment of dividends to non-Dutch shareholders. For information on taxation on dividends please see "Tax Section".

Dividend payments

Dividend payments and other payments will be made by the Issuer, through the NDS. The Issuer will transfer the dividend to the NDS on the dividend payment day. The NDS will pay amount to the accounts of its members (investment firms and custodians) that will then pay dividend directly to the shareholders. The NDS will distribute successive dividends (if any) in accordance with the regulations prevailing on the Polish capital market and the rules of the NDS. .

Issuance of Shares

The Issuer may only issue shares pursuant to a resolution of the General Meeting or of another corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five (5) years. Such designation must specify the maximum number of shares that may be issued pursuant to the designation. The designation may be extended for a further period of up to five (5) years. The designation may not be revoked, unless the designation provides otherwise.

Pre-emptive Rights

Each holder of the Issuer's shares has a pre-emptive right in respect of all share issuances or grants of the right to acquire shares, in proportion to the number of shares held by such holder. Shareholders, however, have no pre-emptive right in respect of the issuance of shares, or the grant of the right to acquire shares, which are issued or granted for a consideration other than cash, to employees of the company or of a group company of the company, or in respect of the issuance of shares to any person who exercises a previously existing right to subscribe for shares. Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting. Pre-emptive rights may also be excluded or restricted by the corporate body to which the power to exclude or restrict pre-emptive rights has been granted by a resolution of the General Meeting for a fixed period not exceeding five years.

Transfer of Shares

The transfer of shares shall require a deed intended for that purpose, and also, except if the company itself is a party to that legal act, a written acknowledgement of the transfer by the company. The acknowledgement takes place in the deed, or by a declaration stating the acknowledgement provided with a date on the deed or on a copy or excerpt thereof, this copy or excerpt being certified by a civil law notary or by the transferor. The service of that deed or that copy or excerpt is deemed to be an acknowledgement. The previous provisions shall equally apply to the allotment of shares in the event of a partition of any community of property, the transfer of a share as a consequence of foreclosure of a right of pledge, the creation, surrender and transfer of a right of usufruct on a share and the creation and surrender of a right of pledge on a share.

Bearer shares are transferred by way of delivery of the share certificate. However, shares which are listed on a regulated stock exchange are transferred by delivery through the clearing and deposit system operating in accordance with the law of the jurisdiction in which the stock exchange is located.

Acquisition of Own Shares by the Issuer

Other than shares acquired for no consideration, shares may only be acquired following a resolution of the Board of Directors, acting pursuant to a general authorization for the repurchase of shares granted by the General Meeting for each specific repurchase of shares. A general authorization by the General Meeting for the repurchase of shares is valid for a maximum period of eighteen (18) months. Such authorization must specify the number of shares to be acquired, the manner in which these shares may be acquired and the price range within which the shares may be acquired. No authorization of the General Meeting is required if shares are acquired by the Issuer with the intention of transferring them to one or more employees of the Group.

In the General Meeting, no voting rights may be exercised for any share held by the Issuer or any of the Group Companies.

Reduction of Share Capital

The General Meeting may, subject to Dutch law and the Articles of Association resolve to reduce issued share capital by cancellation of shares or reduction of the nominal value of shares by amendment of the Articles of Association. A resolution of the General Meeting to reduce the issued share capital must designate the shares to which the resolution applies and must contain provisions for the implementation of such resolution. A resolution to cancel shares in the capital may only be adopted in relation to shares the Issuer holds in its own capital. A partial repayment of the capital may only be made pro rata, in respect of all outstanding shares. For a resolution to reduce the capital, a majority of at least two-thirds of the votes cast shall be required if less than one-half of the issued capital is represented at the General Meeting.

Inquiry Right

One or more shareholders, individually or jointly representing at least 1/10th of the issued capital, or entitled to an amount of shares up to a nominal value of Euro 225,000 may assert an inquiry right. This means that they may request the Enterprise Chamber of the Court of Appeals in Amsterdam in writing that it appoint one or more persons to conduct an inquiry into the policies and the course of affairs of a legal entity (either entirely, or with regard to a part of a certain time period). The Enterprise Chamber only honours the request if it finds well-founded reasons for questioning a correct policy (for example, an impasse in the decision-making process, a conflict between the managing directors and the company and a failure to provide information or to supply correct information).

The following sanctions may be imposed by the Enterprise Chamber, after taking notice of the findings reported by the inquirers, in the event of improper policy: (a) suspension or nullification of a resolution of the Board of Directors, the General Meeting or of any other constituent or corporate body of a legal person; (b) suspension or dismissal of one or more members of the Board of Directors (c) temporary appointment of one or more members of the Board of Directors; (d) temporary deviation from such provisions in the articles as shall be specified by the Enterprise Chamber; (e) temporary transfer of shares to a nominee; (f) the winding up of the legal person.

Statutory Merger and Statutory Demerger

Following a proposal of the Board of Directors, the General Meeting may resolve that the Issuer enters into a statutory merger or demerger.

Dissolution and Liquidation

The Issuer may only be dissolved pursuant to a resolution of the General Meeting, in accordance with a proposal by the Board of Directors. The Issuer’s remaining equity after payment of debts and liquidation costs will be distributed among the shareholders in proportion to the number of shares that each shareholder holds.

Amendment of Articles of Association

The General Meeting can resolve to amend the Articles of Association upon the proposal of the Board of Directors. Such resolution is to be taken by an absolute majority of votes cast.

If a proposal to amend the Articles of Association is to be submitted to the General Meeting, the convening notice must state this fact. At the same time, if the proposal is for an amendment to the Articles of Association, a copy of the motion containing a verbatim text of the proposed amendment must be deposited at the company's office for inspection by the shareholders and depositary receipt holders until the meeting is adjourned.

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CERTAIN DUTCH AND POLISH SECURITIES MARKET REGULATIONS AND PROCEDURES AND THE WARSAW STOCK EXCHANGE

The Issuer intends to apply for admission to trading and to list all the Issuer's Shares, including the Offer Shares on the main market of the WSE. As a result, the Issuer will be subject to certain Polish securities and capital market regulations, in particular with respect to disclosure of information. The Issuer will also be subject to supervision of relevant regulatory authorities and of the PFSA in particular. Moreover, the Issuer, being incorporated under the laws of Netherlands, will be subject to certain aspects of the European Union and Dutch securities regulation as well as the Public Takeover Law.

The information set out below describes certain aspects of Dutch and Polish securities market regulation relevant in connection with the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Dutch and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of the Shares of the Issuer. Each prospective investor should consult a professional legal adviser regarding legal consequences of acquiring, holding and disposing of the Shares of the Issuer under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

European Union Tender Offer Regulations

In respect of governing law, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority. In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office.

Mandatory takeover bids

Polish regulations will govern the take-over bids. However, the threshold that is deemed to constitute the control is determined in accordance with Dutch law. According to Dutch law, any person or persons who individually or collectively, directly or indirectly, acquire 30% or more of the Issuer's voting rights will be obliged to launch a public offer for all outstanding shares in the share capital of the Issuer. Shareholders acting in concert who have a combined interest of at least 30% of the voting rights will also be obliged to make a public offer. An exception is made for shareholder(s), such as the Selling Shareholder, who, individually or acting in concert, have a combined interest of at least 30% of the voting rights before the Offering and who still maintain such an interest after the Offering.

The Takeover Directive allows the Member States to introduce additional protection of the interests of the minority shareholders, such as the obligation to make a partial bid where the offeror does not acquire control of the company. Poland introduced such additional instruments.

Pursuant to Article 72 of the Polish Public Offerings Act, any acquisition of shares in a public company in secondary trading and within a period of less than 60 days by a shareholder who holds shares entitling it to less than 33% of votes at a general shareholders' meeting, leading to the increase of its share in the total number of voting rights by more than 10%, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition of shares in a public company by a shareholder who holds shares entitling it to at least 33% of votes at a general shareholders' meeting, in secondary trading and within a period of less than twelve months, leading to the increase of its share in the total number of voting rights by more than 5%, shall be effected exclusively through a public tender offer.

Additionally a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes. However, if the indicated thresholds are exceeded due to the acquisition of shares in a public offering, in-kind contribution, merger or division of a company, amendments to the articles of incorporation of the company or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% of votes.

It should be noted that Polish law explicitly excludes application of Polish regulations concerning thresholds only with respect to 66% threshold as the mandatory threshold under the Takeover Directive. In such cases, the Dutch threshold of 30% should apply. On the other hand, the additional threshold of 33% stipulated in Polish law is a separate obligation imposed by Poland irrespective of the Takeover Directive. Therefore, the announcement of a take-over bid when exceeding 30% of votes to satisfy the obligations imposed by the Takeover Directive should be deemed a different obligation from the obligation to announce a bid for 66% of votes when exceeding 33% of votes to satisfy additional Polish requirements. This could mean that if an investor announces a take-over bid when exceeding the 30% threshold and it fails to gain more than 33%, it would also be obliged to announce a bid when exceeding the 33% threshold in the future.

The regulations set a number of detailed conditions to be followed in connection with a public tender offer, including without limitation the rules of determining the tender price, required security and settlement.

Squeeze-out and Sell-out Rules

After a public offer, a holder of at least 95% of the outstanding shares and voting rights has the right to require the minority shareholders to sell their shares to the majority shareholder. Any proceeding to require the minority shareholders to sell their shares to the majority shareholder must be filed with the Enterprise Chamber of the Court of Appeal of Amsterdam within three months after the end of the acceptance period of the public offer. Conversely, in such a case, each minority shareholder has the right to require the holder of at least 95% of the outstanding shares and voting rights to purchase its shares. The minority shareholder must file such claim with the Enterprise Chamber of the Court of Appeal of Amsterdam within three months after the end of the acceptance period of the public offer.

For situations not following a public offer, where a person or company or group company holds a total of at least 95% of the Issuer's issued share capital by nominal value for its own account (the ''controlling entity''), Dutch law permits the controlling entity to acquire the remaining shares in the Issuer by initiating proceedings against the holders of the remaining shares. The price to be paid for such shares will be determined by the Enterprise Chamber.

Obligations of Shareholders to Disclose Holdings

Dutch law

Pursuant to chapter 5.3 of the Dutch Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in the Issuer's capital and/or its voting rights must immediately give written notice to the AFM by means of a standard form of such acquisition or disposal if, as a result of such acquisition or disposal, the percentage of capital interest and/or voting rights held by such person meets, exceeds or falls below the following thresholds: 5%,10%,15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must, inter alia, be taken into account: (i) Shares directly held (or acquired or disposed of) by any person, (ii) Shares held (or acquired or disposed of) by such person's subsidiaries or by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement, (iii) voting rights acquired pursuant to an agreement providing for a temporary transfer of voting rights in consideration for a payment and (iv) Shares which such person (directly or indirectly), or any third party referred to above, may acquire pursuant to any option or other right to acquire Shares. Special rules apply to the attribution of Shares which are part of the property of a partnership or other form of joint ownership. A holder of a pledge or right of usufruct in respect of Shares can also be subject to reporting obligations, if such person has, or can acquire, the right to vote on the Shares. The acquisition of (conditional) voting rights by a pledgee or beneficial owner may also trigger reporting obligations as if the pledgee or beneficial owner were the legal holder of the Shares.

Under the Dutch Financial Supervision Act the Issuer is required to file a report with the AFM promptly after the Settlement Date setting out the Issuer's issued and outstanding share capital and voting rights. Thereafter the Issuer is required to notify the AFM promptly of any changes of 1% or more in the Issuer's issued and outstanding share capital or voting rights. Other changes in the Issuer's issued and outstanding share capital or voting rights must be notified periodically to the AFM. The AFM will publish all notifications by the Issuer of its issued and outstanding share capital and voting rights in a public register. If a person's capital or voting rights meet or pass the above-mentioned thresholds as a result of a change in the Issuer's issued and outstanding share capital or voting rights, such person is required to make a notification not later than on the fourth trading day after the AFM has published the Issuer's notification as described above.

Each person whose holding of capital interest or voting rights amounts to 5% or more of the Issuer's issued and outstanding share capital at the Settlement Date must notify the AFM of such holding without delay.

Pursuant to the Dutch Financial Supervision Act every managing and supervisory director must notify the AFM immediately after the Settlement Date of (a) the number of shares he holds and the number of votes he is entitled to cast in respect of the Issuer's issued and outstanding share capital, and subsequently (b) each change in the number of shares he holds and each change in the number of votes he is entitled to cast in respect of the Issuer's issued and outstanding share capital, immediately after the relevant change.

The AFM keeps a public register of all notifications made pursuant to these disclosure obligations and publishes any notification received.

Non-compliance with these disclosure obligations is an offence and may lead to criminal prosecution. The AFM may impose administrative penalties or a cease-and-desist order with penalties for non-compliance. Furthermore, the AFM is in principle obliged to publish the fact that it has imposed an administrative fine or issued a cease-and-desist order. In addition, a court can impose measures against any person who fails to notify, or incorrectly notifies, the AFM of matters required to be notified. A proceeding requiring that such measures be imposed may be instituted by the Issuer and/or one or more shareholders who alone or together with others represent(s) at least 5% of the Issuer's issued and outstanding share capital. Such proceeding has to be initiated within three months from the date the person initiating the proceeding knew or should have known about the non-compliance.

The measures that the court may impose include:

- an order requiring the person violating the disclosure obligations under the Dutch Financial Supervision Act to make appropriate disclosure;
- suspension of voting rights in respect of such person's Shares for a period of up to three years as determined by the court;
- declaring a resolution adopted by the General Meeting void, if the court determines that the resolution would not have been adopted but for the exercise of voting rights by a person who failed to comply with his notification obligation, or suspension of a resolution until the court makes a decision whether such resolution should be declared void; and
- an order to the person violating the disclosure obligations under the Dutch Act on Financial Supervision to refrain, during a period of up to five years as determined by the court, from acquiring Shares and/or exercising voting rights in respect of Shares.

Polish law

The Public Offering Act provides for disclosure obligations when acquiring or selling shares in a public company. In accordance with Article 69 of the Public Offering Act an investor must, within four business or six trading days (if the transaction is executed on the regulated market) from the date on which the shareholder becomes, or by exercising due diligence could have become, aware of the change in his share in the total vote, notify the PFSA and the company concerned (and the company concerned should reveal that information to the public through an information agency and the stock exchange) about:

- reaching or exceeding 5, 10, 15, 20, 25, 33, 50, 75 or 90% of the total number of voting rights at the general shareholders' meeting of the company;
- selling shares owned by the investor so that they constitute less than 5, 10, 15, 20, 25, 33, 50, 75 or 90% of the total number of voting rights at the general shareholders' meeting;
- a change in the number of shares currently owned by the investor by at least 2% if it currently holds more than 10% (but less than 33%) of the voting rights at the general shareholders' meeting; and
- a change in the number of shares currently owned by the investor by at least 1% if it currently holds more than 33% of the voting rights at the general shareholders' meeting.

The notification shall include information on the date and type of transaction resulting in the change in the number of shares held, the number of shares held prior to the transaction, the number of shares held after the transaction as well as information concerning further acquisitions or disposals of shares during the next 12 months, if the notification is made in connection with reaching or exceeding the 10% threshold, subsidiaries of the notifying investor, who hold company shares, persons with which the notifying investor entered into an agreement on the transfer of right to exercise voting rights.

Moreover the obligations described above also apply to the entity that has reached or exceeded a given threshold of total vote in connection with a legal event other than legal action, acquisition or disposal of financial instruments from which an unconditional right or obligation arises to acquire the already issued shares of a public company or indirect purchase of shares of a public company.

Disclosure of Information

Upon the implementation of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC in Poland the scope and content of disclosure obligations regarding current and periodic reports imposed on the Issuer may be regulated by Dutch law. Therefore, the Issuer may decide whether it will publish its current and periodic information only in English or also in the Polish language.

Insider Trading and Market Abuse

Dutch Law

The Issuer – pursuant to chapter 5.4 of the Dutch Financial Supervision Act and the rules promulgated there under in the Market Abuse Decree (*Besluit Marktmisbruik WFT*) – is required to have a code of conduct with rules governing the ownership of, and transactions in, the Shares.

Such a code of conduct must include, amongst others, rules relating to:

- the tasks and powers of the person appointed by the Issuer to make notifications on behalf of persons associating with the Issuer, who are required to make notifications to the AFM of the transactions in the Issuer's securities pursuant to insider trading rules;

- the obligation of employees, members of the Board of Directors and managers with respect to the ownership of, and transactions in, the Shares; and

- if relevant, the period during which such persons may not effect transactions in the Shares.

The Issuer must also draw up a list of persons involved with the Issuer, under a contract of employments or otherwise, who could have access to inside information, to regularly update this list of persons and to inform persons on this list about the relevant prohibitions and sanctions in respect of insider trading and market abuse.

The Shares are further subject to the Dutch prohibitions on insider trading. Furthermore, the prohibition on disclosing inside information and the prohibition on market manipulation pursuant to the Dutch Financial Supervision Act apply in relation to any of the Shares that the Issuer holds. In case of violation of the Dutch market abuse rules, the AFM may take enforcement action. It may impose administrative fines and issue injunctions. Furthermore, the AFM is in principle obliged to publish the fact that it has imposed an administrative fine and/or issued an injunction, mentioning the name of the offender. In addition, non-compliance with certain prohibitions and obligations qualifies as a criminal offence.

Polish law

The Trading in Financial Instruments Act defines "insider information" as specific information relating to, directly or indirectly, the issuer, financial instruments (including securities) or acquisition or disposal of such financial instruments, if such information has not been disclosed to the public and, if so disclosed, it could materially influence the price of such financial instruments (or the price of derivative rights arising from such financial instruments).

Subject to certain exceptions, the public company is obliged to disclose the insider information promptly upon the occurrence of events or circumstances which require the disclosure, or upon becoming aware of such events or circumstances, but not later than within 24 hours. The company is also obliged to disclose such information on its website, except for personal data of any persons to whom such information refers.

Subject to certain exceptions, any individual who acquires insider information as a result of his position(s) in a company's governing bodies or as the owner of a company's shares, or as a result of his employment in such company, or any other similar legal relationship, is prohibited by law from using or disclosing such information to third parties. The above also applies to individuals who illegally obtain insider information or obtain such information in another manner, but should have known that such information was insider information.

Market manipulation

The Trading in Financial Instrument Act forbids share price manipulation, defined by reference to a number of activities, including, without limitation, taking actions of which effect could be misleading as to the actual demand, supply or price of the shares in question or actions involving placing orders or executing transactions that cause an artificial fixation of the share price, unless the grounds on which such actions were effected are legitimate and such actions have not infringed the established market trading rules. Manipulation may also include disseminating false or inaccurate information that may mislead investors, as well as placing orders or executing transactions in order to profit from investors having been misled as to the price or value of the shares in question.

Warsaw Stock Exchange

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID. The other regulated market (BondSpot, the subsidiary of the WSE) concentrates mainly on bond trading and OTC transactions. The WSE is a private joint-stock company and is 98.8 % controlled by the Polish State. Members of the WSE include banks and Polish and international brokers.

Shares listed on the WSE may be traded in a continuous price-setting system or in the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Basic and parallel, the latter being for smaller, less liquid issuers. Listed companies are classified into four segments according to their capitalisation: MINUS 5, 5 PLUS, 50 PLUS or 250 PLUS. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. Shares of companies which have high price volatility, or which are under bankruptcy proceedings may be classified into the Alert List segment and then moved to listing under the single-price auction system.

The settlement of all transactions executed on the WSE is handled by the NDS, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland).

The electronic trading system used by the WSE is WARSET, a trading system similar to the system used in Paris, Brussels, Amsterdam, Chicago, and Singapore.

As of 31 July 2010, shares of 384 companies were listed on the WSE.

TERMS AND CONDITIONS OF THE OFFERING

The Offering

On the basis of this Prospectus (the "Prospectus"), Milkiland N.V. ("Milkiland", the "Company" or the "Issuer") is offering for subscription up to 6,250,000 newly issued Shares (the "New Shares") and additionally up to 750,000 existing Shares ("Over-allotment Shares") in connection with the Over-allotment Option, held by the Issuer's majority shareholder, 1, Inc. Cooperatief U.A. (the "Selling Shareholder"), a co-operative organized under the laws of the Netherlands. Such New Shares and Over – allotment Shares are referred to, where the context permits, as the offer shares (the "Offer Shares").

This offering (the "Offering") consists of a public offering to: (i) retail investors in the Republic of Poland (the "Retail Offering") and (ii) institutional investors in the Republic of Poland (the "Polish Institutional Offering" and, together with the "Retail Offering", the "Polish Public Offering") (iii) institutional investors outside the United States (excluding the Republic of Poland) in reliance on Regulation S under the U.S. Securities Act (the "International Offering" and together with the Polish Institutional Offering, the "Institutional Offering").

No separate tranches have been created in the Offering for the various categories of investors (such as Institutional Investors or Retail Investors). Consequently, the Issuer reserves the right to allocate the Offer Shares between such groups of investors and within such groups to investors at its absolute discretion, following agreement with the Selling Shareholder and the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager. Should that happen, all of the Offer Shares may be subscribed solely by Institutional Investors or by Retail Investors, or by the mixture thereof, as the case may be.

All investors that intend to acquire any of the Offer Shares should acquaint themselves with the relevant laws of their countries of residence prior to making a decision to subscribe for the Offer Shares.

In addition, the Selling Shareholder has granted to the Underwriter and to the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager an Over –allotment option exercisable for up to 30 days following the Allotment Date to purchase up to an additional 750,000 Shares (the "Over-allotment Shares", the maximum number of which is equal to 12 % of the number of New Shares being offered in the Offering, solely to cover overallotments, if any, made in connection with the Offering and short positions resulting from stabilization transactions.

Pursuant to the draft deed of amendment of the Company's articles of association, which was approved by the general meeting of shareholders on 4 November 2010 and which will be executed prior to listing, the Board of Directors is authorized to resolve to issue the New Shares. On 4 November 2010, the general meeting of shareholders authorized the Board of Directors to take any and all actions in connection with the Offering. The issuance of the New Shares is scheduled to occur upon the Board of Directors' execution of a resolution to that effect shortly prior to delivery and listing of the Offer Shares, as outlined below.

Determination of the Offer Price

Retail Investors (excluding U.S. persons as defined in Regulation S) may submit their subscriptions for the Offer Shares in the period commencing on 16 November 2010, and ending on 25 November 2010. Institutional Investors (excluding U.S. persons as defined in Regulation S) may submit their subscriptions for the Offer Shares in the period commencing on 26 November 2010 and ending on 29 November 2010. The price at which subscriptions will be accepted from the Retail Investors will be determined by the Company and the Selling Shareholder, in agreement with the Managers, on 15 November 2010 at the latest (the "Maximum Price"). The information about the Maximum Price will be made publicly disclosed by the Company through a press release in Poland and in a manner compliant with applicable regulations as well as market practice in the Netherlands and Poland. The issue price of New Shares (the "Issue Price") and the sale price of the Over–allotment Shares (the "Sale Price", and together with the Issue Price, the "Offer Price") shall be determined jointly by the Company and the Selling Shareholder, in agreement with the Managers, prior to the commencement of subscription by Institutional Investors, on 26 November 2010 (the "Price Determination Date"), on the basis of the evaluation of the level of the investors' interest in acquisition of the Offer Shares. The Offer Price for Retail Investors shall not exceed the Maximum Price. The Offer Price for Institutional Investors may exceed the Maximum Price. The information about the Offer Price shall be made publicly disclosed by the Company in the same manner as this Prospectus has been made available in accordance with Art. 5:18 of the Dutch Financial Supervision Act.

The Maximum Price and the Offer Price will be denominated in PLN.

Schedule of the Offer

The detailed schedule of the Offering is presented below:

15 - 25 November 2010	Book-building process among Institutional Investors
15 November 2010	Publication of the Maximum Price
16 - 25 November 2010	Retail Subscription Period
26 November 2010	Determination of the Offer Price
26 - 29 November 2010	Institutional Subscription Period
30 November 2010	Allotment Date
on or around 6 December 2010	Delivery and listing of the Offer Shares

The Issuer and the Selling Shareholder reserve the right to change the timetable of the Offer, including the dates for accepting orders. All the above deadlines are subject to change. In the event of a change to any of the deadlines, this information will be published as a supplement to the Prospectus. A change to the dates of the Offering will not constitute a withdrawal of the Offer.

Rules Governing Placing of Subscription Orders for the Offer Shares

After the completion of the book-building process the Managers, in agreement with the Issuer and Selling Shareholder will determine the list of eligible investors who will be invited to place subscription orders for a specified number of shares.

Subscription orders from the Retail Investors will be accepted at the client service points of Centralny Dom Maklerski Pekao S.A. and Dom Maklerski Pekao or at any other place that may be publicly communicated by the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager prior to the end of the subscription period for the Retail Investors.

For information on the detailed rules governing placing of subscription orders, in particular: (i) the documents required if a subscription order is placed by a statutory representative, proxy or any other person acting on behalf of an investor, and (ii) the possibility of placing subscription orders and deposit requests in a form other than the written form, the investors should contact the Customer Service Point of the brokerage house accepting orders for Shares from Retail Investors at which they intend to place their subscription order.

Subscription orders from Institutional Investors will be accepted at the office of the Offeror, UniCredit CAIB Poland S.A., ul. Emilii Plater 53, Warsaw, Poland. For information on the detailed rules governing placing of subscription orders, in particular: (i) the documents required if an order is placed by a statutory representative, proxy or any other person acting on behalf of an investor, and (ii) a possibility of placing orders and deposit instructions in a form other than the written form, Institutional Investors should contact the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager or the Offeror.

Investors have the right to place multiple subscription orders, provided the aggregate number of the Offer Shares subscribed by one investor is not greater than the total number of Offer Shares. Subscription orders for a total number of Shares greater than the number of the Offer Shares shall be considered to be orders for the all Offer Shares. The subscription order placed by an investor must be given in respect of at least one Offer Share.

Subscription orders must be placed on subscription forms made available at the brokerage houses accepting orders for Shares or through fax, telephone or other electronic means of communication if the brokerage house accepting subscription orders provides for such possibility and in compliance with terms and conditions set down for such placement.

If an order placed by an Institutional Investor is not paid up in full, it shall be valid for the number of the Offer Shares corresponding to the amount paid by such investor. If an order placed by a Retail Investor is not paid up in full, such order shall be deemed invalid.

By placing subscription orders, each of the prospective investors will be deemed to have read the Prospectus, accepted the terms of the Offering consented to being allotted a lower number of Offer Shares than the number specified in such investor's subscription orders, or to not being allotted any Offer Shares at all, pursuant to the terms and conditions set forth in the Prospectus.

Subscription orders from Retail Investors or Institutional Investors will be accepted only from prospective investors who at the time of placing their orders (before the end of the subscription period for the Retail Investors or the subscription period for the Institutional Investors, respectively), will have opened securities accounts with entities of their choice, licensed to provide such services within the territory of the Republic of Poland.

Rules Governing Payment for the Offer Shares

Retail Investors placing subscription orders for Offer Shares should pay for such Offer Shares at the time of placing their subscription order. The amount of such payment should be equal to the multiple of the number of Offer Shares for which the investor is placing the subscription order and the Maximum Price.

Institutional Investors placing subscription orders should pay for Offer Shares no later than by the end of the relevant subscription period. If an order is not paid up in full, it shall be valid for the number of Offer Shares corresponding to the amount paid by the investor, ignoring fractional entitlements. Payments should be transferred to such account as indicated by the investment institution accepting subscription order for the Offer Shares.

Allotment of the Offer Shares

The total number of Offer Shares allotted to the Retail Investors and the Institutional Investors will be determined by the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager and the Offeror, at its discretion. The minimum allotment in the Offer will be one Share, regardless of how and through whom the subscription order has been placed (without prejudice to the possibility of the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager and the Offeror to allocate no Offer Shares at all to certain investors participating in the Offer).

The final number of the Offer Shares to be allotted to Retail Investors and Institutional Investors shall be published following the completion of the subscription period for Institutional Investors, by way of a press release and in the same manner as this Prospectus. All dealings in the Offer Shares prior to the commencement of the official trading on the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been informed of the number of Shares allotted to him.

The allotment of the Offer Shares is expected to take place on or about 30 November 2010 (the "Allotment Date"). In the case of an over-subscription, Offer Shares shall be allotted to the Retail Investors participating in the Offering in accordance with the proportional reduction principle with respect to each order placed. Fractional allocations (after the proportional reduction, if any) will be rounded down to the nearest integer value, and the remaining Offer Shares will be allocated to the Retail Investors who subscribed for the largest number of Offer Shares.

Neither the Issuer nor the Selling Shareholder will give preferential treatment or discriminate against and between Retail Investors.

Retail Investors participating in the Offering who have not been allotted any Offer Shares or whose subscriptions have been reduced will receive reimbursements of cash payments and of excess payments in accordance with the instructions provided by each Retail Investor as required under the procedures applicable in the brokerage house in which the subscription order was placed within 14 days from the Allotment Date or from the date of the announcement on the cancellation of the Offer. The excess payments shall be returned without any reimbursements for costs incurred by the investors in the course of subscribing for the Offer Shares and net of all transfer expenses and without interest.

Offer Shares shall be allotted to Institutional Investors participating in the Offer, subject to the payment for the Offer Shares they subscribed for in accordance with the provisions set forth in this Prospectus, in the first instance to those Institutional Investors who have been invited by the Managers to participate in the book-building and will be included in the allotment list prepared by the Company based upon the recommendation and with the agreement of the Managers (the "Allotment List"). The allocation of Offer Shares to particular Institutional Investors participating in the Offering will be determined by the Managers, at its discretion, subject to the consent of the Company.

Institutional Investors participating in the Offering will be notified about their allocations of Offer Shares by the Managers. Retail Investors participating in the Offering will receive relevant notifications in accordance with the regulations of their brokerage accounts.

All Offer Shares will be delivered to investors at the same time by way of registration of such Shares on their brokerage accounts through the facilities of the NDS.

Registration and Settlement

All the Shares will be registered with and cleared through the NDS (*Krajowy Depozyt Papierów Wartościowych S.A.*) which is a Polish central clearinghouse and depository of securities with its seat at. ul. Książęca 4, 04-498 Warsaw, Poland.

The registration of the Shares on Investors' securities accounts in their brokerage houses or custodian banks shall be made through the NDS once the Shares have been admitted to trading on the WSE on or around 6 December 2010.

The Issuer will not hire paying agent, once the Shares will be registered all payments connected with the Shares shall be made through the NDS.

Results and Closing of the Offering

The Issuer will announce the results of the Offering, including in particular the final Offer Price and the final number of the Offer Shares, including allocation among the various categories of investors, as defined above, promptly upon allotment, by means of a press release in Poland and in a manner compliant with applicable regulations, as well as market practices in the Netherlands and Poland.

The Offering will close on the Settlement Date, upon subscription, allocation and payment for the Offer Shares as set out above and issuance by the Issuer of the New Shares and the sale by the Selling Shareholder of the Over – allotment Shares. The earliest date when the Offering may close is 30 November 2010". The Issuer has not provided any special conditions for the closing of the offering.

Change of Terms of the Offering

In accordance with the relevant regulations in force in the Netherlands and Poland applicable to public offerings and the admission of securities to trading on a regulated market, any significant change to the Prospectus, as defined in the aforementioned regulations will be communicated through a supplement to the Prospectus, if required. The supplement to the Prospectus will be approved by the AFM, notified to the PFSA and published in the same matter as the Prospectus. In case the supplement is published after approval of the Prospectus by the AFM, investors who have placed their subscription orders before publication of the supplement will have a right to withdraw their subscriptions within two business days from the publication of the supplement to the Prospectus. In such a case, if necessary, the Settlement Date will be adjusted in order to enable the investors to withdraw their subscriptions.

Abandonment of the Offer

The Issuer may abandon the Offering or a part thereof at any time before or after the opening of the Offering or a part thereof, without disclosing any reason for doing so.

The Issuer may also cancel the Offering or any part thereof at any time after the opening of the subscription period for the Retail Investors, if proceeding with the Offering will be considered impracticable or inadvisable.

Such reasons may include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the Warsaw Stock Exchange; (ii) sudden and material adverse change in the economic or political situation in Ukraine, Russia, Poland and any other jurisdictions in which the Company operates or worldwide; (iii) a material loss or interference with the Company's business; (iv) the insufficiency, in the opinion of the Company, or the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager or the Offeror, expected free float of the Shares on the Warsaw Stock Exchange or (v) any change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of the Company's operations or the operations of its subsidiaries in a material adverse way. In such event, subscription orders for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation, net of transfer costs.

Any decision on cancellation, the postponement or changes of dates of the Offering will be published by way of a press release in Poland and in a manner compliant with applicable regulations, as well as market practices in the Netherlands and Poland. The Offering may not be cancelled or suspended after the official trading in the Offer Shares on the WSE has begun.

Information on the suspension of the Offering will be published in the form of a supplement to the Prospectus. In this supplement, the Issuer will include information on the validity of orders placed by investors.

All dealings in the Offer Shares prior to the commencement of the official trading on the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been notified of the number of Shares allotted to him.

Listing of the Offer Shares

The Shares are dematerialized and will be registered with the NDS. Application will be made to the Warsaw Stock Exchange for the admission of all of the Company's Shares, including the New Shares, for listing on the main market in the continuous trading system. Trading in Shares is expected to commence on or about 6 December 2010 ("Listing Date").

Investors trading on the WSE should consider that since under the laws of the Netherlands, no court registration process is needed in order validly issue any shares, the New Shares will be eligible for the listing application upon payment by investors, on par with the Issuer's remaining Shares. Consequently, the Issuer will not be seeking to apply for listing on the WSE of any temporary share receipts, such as "rights to shares" (*prawa do akcji*) within the meaning of the Trading in Financial Instruments Act.

At present the Issuer does not intend to seek a listing of the Shares at any stock exchange other than the WSE.

Delivery of the Offer Shares

Delivery of the Offer Shares will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of the NDS. Delivery of the Offer Shares is expected to take place on or about 6 December 2010 (the "Delivery Date"), barring unforeseen circumstances.

As of the date of the Prospectus, all of the Shares have been assigned ISIN code NL0009508712.

Offeror

The Company has appointed UniCredit CAIB Poland S.A. to act as the intermediary with respect to the Offer Shares for the purposes of the Offering and admission of the Shares to trading on the main market of the Warsaw Stock Exchange.

Lock-up Agreements

Issuer and the Principal Shareholders have agreed that, without the prior written consent of the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager, it or he will not, subject to certain exceptions, during the 180 days period after the Allotment Date (the "Lock-up Period") issue, offer, sell, contract to sell, pledge or otherwise transfer or dispose of, or announce the proposed sale of, any Shares or other equity securities or securities linked to the Issuer's share capital.

Furthermore, the Selling Shareholder has agreed that, save for the sale of the Over-allotment Shares in the Offering, for a period of 180 days from the Settlement Date shall not: (i) sell or announce an intention to sell any of the Issuer's Shares (except for the Over-allotment Shares in the Offering), (ii) issue any securities exchangeable into the Issuer's Shares, (iii) issue any securities that in any other manner represent the right to acquire the Issuer's Shares, and also (iv) conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling the Issuer's Shares, without the prior consent of the Managers, which consent shall not be unreasonably withheld. In addition, the Selling Shareholder has undertaken not to propose, vote in favour of or otherwise support: (i) any increase of the Issuer's share capital, (ii) any issuance of securities convertible into the Issuer's Shares or (iii) any issuance of any other securities that in any other manner represent the right to acquire the Issuer's Shares, and also (iv) to conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of causing the Issuer to issue such instruments except the issue of securities linked to the Issuer's share capital under any share / management incentive plan to be implemented by the Issuer.

Expenses of the Offer

As the Offer Price and the number of Offer Shares being issued are not known at present, the gross proceeds from the Offering cannot be estimated. Preliminary estimates of the costs of the Offering suggest that they will be approximately EUR 4.3 million.

The Issuer will publish information regarding the proceeds from the sale of the New Shares, as well as total expenses of the Offering as a Current Report immediately after the Offering is completed, in accordance with Article 56 of the Act on Public Offers.

Entities that have binding obligations to act as intermediaries in trading on the secondary market

No entity is obliged to act as an intermediary in secondary market trading, ensuring the liquidity of the Issuer's shares by quoting bid and offer prices.

Purchase by the members of the Management Board, the Supervisory Board and the Senior Management

The members of the Board of Directors and the Key Executives do not intend to purchase the Offer Shares covered by the Offering.

The Issuer's Selling Shareholder does not intend to submit orders for the Offer Shares covered by the Offering.

The Issuer is further not aware of any individuals intending to subscribe or to purchase 5% or more of the Offer Shares.

Share Stabilization

In connection with the Offering, the Sole Global Coordinator, Sole Bookrunner andStabilisation Manager or the Underwritter or its affiliates or agents may engage in transactions on the WSE with the aim of supporting the market price of the Shares at a level higher than would otherwise prevail. Such stabilisation shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buyback programmes and stabilisation of financial instruments (the "Stabilisation Regulation").

The Share Stabilisation shall be carried out within the period starting from the date of commencement of trading of Shares on the WSE and end no later than 30 calendar days thereafter. There is no assurance that the share stabilization will be undertaken and may be stopped at any time.

PLACING AND UNDERWRITING

The Issuer and the Selling Shareholder intend to enter on or about 16 November 2010, into an underwriting agreement (the "Underwriting Agreement") in respect of the Offering with the Managers and the Underwriter, in which the Underwriter will commit, on a best efforts basis, to procure subscribers for, or failing that, to subscribe in their own name and pay for, the Offer Shares at the Offer Price.

The Underwriting Agreement will provide that the obligations of the Managers and of the Underwriter are subject to certain conditions precedent. If any or all of these conditions (such as delivery of customary legal opinions and comfort letters), are not met or waived, a breach of the Issuer's and Selling Shareholders' representations and warranties occurs or if any of the circumstances which will be referred to in the Underwriting Agreement occur prior to payment for and delivery of the Offer Shares, the Managers and the Underwriter may, at their sole discretion, terminate the Underwriting Agreement and the Underwriter's obligation to subscribe for any Offer Shares will lapse.

The Issuer and the Selling Shareholder envisage that the Underwriter shall agree to subscribe for Shares which are not subscribed and paid for at the Allotment Date, provided inter alia that no material adverse change will occur in the Issuer's financial and/or legal standing from the date when the Prospectus is published until the date of settlement of the Offering. The Issuer and the Selling Shareholder will also agree that the Offer Shares subscribed for by the Underwriter may be transferred at any time, without any restrictions whatsoever, on the terms and conditions set forth by the applicable laws.

The Issuer and the Selling Shareholder will also undertake: (i) to take all actions necessary to list the Shares on the WSE, and in particular to file the relevant applications, (ii) not to enter into any other underwriting agreement in respect of the Shares and (iii) to use the proceeds from the Offering for the purposes indicated in the Prospectus. Each of the Managers and the Underwriter will be able to terminate the Underwriting Agreement in the event of any occurrence of force majeure (as defined in the Underwriting Agreement, but in any case including publication or an intention to publish a supplement to the Prospectus), upon prompt written notice by the terminating party.

In addition, the Issuer has agreed to indemnify each of the Managers and the Underwriter, their affiliates and their respective directors and employees against certain liabilities, including liabilities under applicable securities laws. These indemnifications will survive expiry and termination, if any, of the Underwriting Agreement.

UniCredit CAIB Poland S.A., ul. Emilii Plater 53, 00-113 Warsaw, Poland, will act as Offeror in Poland with respect to the Shares for the purposes of the Offering and admission to trading on the main market of the WSE.

In connection with the Offering, the Issuer and the Selling Shareholder have agreed to pay the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager, the Offeror and the Underwriter fee equal to 3.25%, including an incentive fee, of the gross proceeds from the placement and sale of the Offer Shares including Over-allotment Shares, pro rata to the number of the New Shares and the Over- allotment Shares in the Offering, however not less than US $ 1,700,000. Furthermore, the Issuer and the Selling Shareholder will pay the Co–Lead Manager a fee equal to 0.45% the gross proceeds from the Offering, payable by the Company and the Selling Shareholder pro-rata of their Shares sold in the Offering.

The Issuer and the Selling Shareholder also agreed to pay all commissions and expenses in connection with the Offering. However, investors will bear their own costs connected with the evaluation and participation in the Offering, i.e. potential standard brokerage fees that can be charged by brokers.

In addition, the Issuer and the Selling Shareholder have agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain of their expenses in connection with the management of the Offering. The Managers are entitled in certain circumstances to be released and discharged from their respective obligations under the Underwriting Agreement prior to the Listing Date. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events. Please see "*Terms and Conditions of the Offering—Abandonment of the Public Offering*".

In connection with the placement of the Offer Shares, the Selling Shareholder has granted the Underwriter and the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manager an option (referred to as the "Over-allotment Option"), on behalf of the Managers, solely for the purpose of covering over allotments, to purchase an additional 750,000 Shares at the Offer Price. The Over-allotment Option is exercisable, in whole or in part, during the period which runs from the date of the Prospectus until thirty days after the announcement of the Offer Price, i.e. until thirty days after the Pricing and Allotment Date. Please see "*Terms and Conditions of the Offering—Stabilization*".

Pursuant to the Underwriting Agreement, the Company and the Principal Shareholders have agreed to a lock-up. Please see "*Terms and Conditions of the Offering—Lock-up Agreements*".

Interests of natural and legal persons participating in the Offering

The Managers and other parties described below have contractual relationships with the Issuer in connection with the Offering and the Admission. UniCredit Bank AG London Branch has been mandated by the Issuer as the Sole Global Coordinator and Sole Bookrunner and Stabilisation Manager, UniCredit Bank Austria AG has been mandated by the Issuer as the Underwriter, Concorde (Bermuda) Limited has been mandated by the Issuer as Co Lead Manager, UniCredit CAIB Poland S.A, has been mandated by the Issuer as the Offeror and Centralny Dom Maklerski Pekao S.A. and Dom Maklerski Pekao S.A. have been mandated by the Issuer as the Polish Selling Agents. The Managers advise the Issuer and the Selling Shareholder in connection with the Offering and Admission and coordinate the structuring and execution of the transaction. If the transaction is successfully executed, the Managers and the Underwriter and Stabilisation Manager will receive a combined commission (see "Placing and Underwriting").

The Managers, the Underwriter, their affiliates or other parties described in the first paragraph above may in connection with the Offering acquire the Offer Shares as investors and hold or sell those Shares for their own account, and may offer and sell those Shares outside of the offering period as well. This does not constitute a preferential allotment. The Managers and the Underwriter do not intend to disclose the extent of such investments or transactions unless required by law.

The Managers, the Underwriter, their respective affiliates or other parties described in the first paragraph above have in the past engaged and may in the future engage in investment and commercial banking and other commercial dealings in the ordinary course of business with the Selling Shareholder or with the Issuer, for which they received or will receive customary fees and commissions.

The Over-allotment Shares to be placed in the course of the Offering will be offered by the Selling Shareholder, which will receive an amount of the net proceeds proportionate to the Over-allotment Shares sold in the Offering. The Selling Shareholder, therefore, has a financial interest in the implementation of the Offering at the highest Offer Price possible.

Other Relationships

The Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company and the Selling Shareholder and any of its affiliates. The Managers and their respective affiliates have received and may receive in the future customary fees and commissions for these transactions and service

SELLING RESTRICTIONS

Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Dutch Financial Supervision Act (Wet *op het financieel toezicht* (Wft) (which implemented the Prospectus Directive into Dutch law), for the purpose of giving the information with regard to the Issuer and the Shares it intends to offer pursuant to this Prospectus which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

This Prospectus constitutes a prospectus in the form of a single document within the meaning of article 5.3 of Prospectus Directive and Article 5:15 of the Dutch Financial Supervision Act. This Prospectus has been filed with, and was approved on 10 November 2010 by the AFM, which is the competent authority in the Netherlands to approve this document as a prospectus. Under the Prospectus Directive and the Dutch Financial Supervision Act, this Prospectus, once approved by the competent authority of one member state of the EU ("Home Member State") may be used for making a public offering and admission of securities to listing on a regulated market in another Member State of the EU ("Host Member State"), provided that the competent authority of the Home Member State provides the competent authority of the Host Member State with a certificate, within the meaning of Article 5:10 of the Dutch Financial Supervision Act.

The Issuer and the Selling Shareholder will be authorized to carry out the Offering to the public in Poland, once the AFM, in accordance with Art. 37 of the Public Offerings Act, provides the PFSA with a certificate of approval of this Prospectus (in accordance with Art. 5:10 of the Dutch Financial Supervision Act, Art. 18 of the Prospectus Directive and Art. 37 of the Public Offerings Act), this Prospectus in the English language, a translation of the Prospectus into the Polish language and a summary of this Prospectus in the Polish language and after the Prospectus in the English language and its summary in the Polish language has been made available to the public, which is equivalent to authorizing the Offering to the public in Poland.

No Public Offering Outside Poland

This Prospectus has been prepared on the basis that there will be no offers of the Offer Shares, other than the Offering to the public in the territory of Poland in accordance with the Prospectus Directive, as implemented in the Netherlands and Poland, respectively. Accordingly, any person making or intending to make any offering, resale or other transfer within the EEA, other than in Poland, of the Offer Shares may only do so in circumstances under which no obligation arises for the Issuer, the Selling Shareholder or the Managers to produce an approved prospectus or other offering circular for such offering. Neither the Issuer, the Selling Shareholder, nor the Managers have authorized, nor will any of them authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Managers under this Prospectus.

No action has been or will be taken by the Issuer, the Selling Shareholder or the Managers in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to the Issuer or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions on the distribution of this Prospectus and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. This Prospectus does not constitute an offer to subscribe for or buy any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

European Economic Area

This Prospectus has been approved by the AFM, being the competent authority in the Netherlands. However, in relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Managers have represented and agreed that it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that it may make an offer of Shares to the public in that Relevant Member State under the following exemptions under the Prospectus Directive, if such exemptions have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) total balance sheet of more than 43 million EUR and (iii) an annual net turnover of more than 50 million EUR, as shown in its last annual or consolidated accounts;

- to fewer than 100 natural or legal persons in such Relevant Member State or to fewer than 100 natural or legal persons in all Member States, depending on the method of calculation provided for under applicable regulations of such relevant member state; and

- in any other circumstances falling within Art. 3(2) of the Prospectus Directive,

- provided that (i) no such offer of Shares shall result in the requirement for the publication by the Issuer, the Selling Shareholder or any Manager of a Prospectus pursuant to Art. 3 of the Prospectus Directive, and (ii) any such legal or natural person (a "Permitted Investor") is acquiring such Shares either for its own account and not with a view to the Shares being resold or placed within any Relevant Member State other than to other permitted investors or for the account of other Permitted Investors, or (iii) for the account of other persons or entities for whom it makes investment decisions on a wholly discretionary basis.

Each investor who in a Relevant Member State acquires any Offer Shares in the offering shall be taken by so doing to have represented and warranted to the Issuer, the Selling Shareholder and the Managers that it is a Permitted Investor and that it has complied with any other restrictions applicable to that Relevant Member State.

For the purposes of this provision, the expression an "offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication, in any form and by any means, of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In addition, in the United Kingdom, this Prospectus may be distributed only to and may be directed only at (a) persons who have professional experience in matters relating to investments who fall within Art. 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (b) high net worth entities falling within Art. 49(2) (a) to (d) of the Order. Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Offer Shares have not been offered or sold and, prior to the expiry of a period of six months from the sale of the Offer Shares, will not be offered or sold to persons in the United Kingdom except to ""qualified investors'' as defined in section 86(7) of the Financial Services and Markets Act 2000, as amended (the "FSMA"). Each of the Managers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any the Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Offer Shares or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of Offer Shares applicable in such EEA member state.

United States

The Offer Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions in reliance on Regulation S under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Act.

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Offer Shares within the United States or to, or for the account or benefit of, US persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date, and that it will have sent to each dealer to which it sells Offer Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, US persons.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Offer Shares outside the United States and for the listing of the Offer Shares on the main market of the Warsaw Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, for any reason.

Canada

This Prospectus is not, and under no circumstances is to be construed as, a Prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organized under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

TAXATION

Taxation in the Netherlands

The information set out below describes the principal Dutch tax consequences of the acquisition, holding and disposal of shares admitted to trading on the regulated market for both Dutch resident and non-Dutch resident Holders and is included for general information only.

The information presented below is of a general nature and should not constitute the sole basis for evaluating the tax consequences of making any investment decisions. Potential investors are urged to consult their tax advisers. Please note that the information presented below has been prepared based on the legal statutes as at the date of the Prospectus.

Dutch dividend withholding tax

Dividends distributed by the Issuer are generally subject to Dutch dividend withholding tax at a rate of 15%. Dividends distributed include, amongst others, (i) distributions in cash or in kind; (ii) liquidation proceeds, proceeds of redemption of the Issuer's shares, or proceeds of the repurchase of the Issuer's shares by the Issuer or one of the subsidiaries of the Issuer or other affiliated entities to the extent such proceeds exceed the average paid-in capital of the Issuer's shares recognized for Dutch dividend withholding tax purposes; (iii) an amount equal to the par value of the Issuer's shares, to the extent that it does not appear that a contribution, recognized for the purposes of Dutch dividend withholding tax, has been made or will be made; and (iv) partial repayment of the paid-in capital, recognized for Dutch dividend withholding tax purposes, if and to the extent that the Issuer has net profits (zuivere winst), unless the holders of the Issuer's shares have resolved in advance at a General Meeting to make such repayment and the par value of the relevant shares has been reduced by an equal amount by way of an amendment to the articles of association of the Issuer.

The Issuer will be obliged to file a dividend withholding tax return and withhold tax from the distribution and remit it to the tax authorities. Dividend withholding tax must be withheld at the moment the distribution becomes payable. Dividend withholding tax withheld from dividends to which entitlement has lapsed is non-refundable.

Dutch Resident Holders

Generally a credit for Dutch dividend withholding tax against the Dutch taxable income is available for holders of the Issuer's shares, individuals and corporate entities, who are, or who are deemed to be, resident of the Netherlands or, if they are individuals, who have opted to be taxed under the rules of the Dutch Income Tax Act 2001 (wet inkomstenbelasting 2001).

In general, the Issuer will be required to remit all amounts withheld as Dutch dividend withholding tax to the Dutch tax authorities. Nevertheless, the abovementioned holders can be entitled to a refund of dividend withholding taxes exceeding their aggregate Dutch income tax or Dutch corporate income tax liability, provided that certain conditions are met, unless a holder of the Issuer's shares is not considered to be the beneficial owner (uiteindelijk gerechtigde) of the dividends.

Non-Dutch Resident Holders

A holder of the Issuer's shares who is not treated as a resident of the Netherlands for purposes of Dutch taxation and who is considered to be a resident of the Netherlands Antilles or Aruba under the provisions of the Tax Convention for the Kingdom of the Netherlands (*Belastingregeling voor het Koninkrijk*), or who is considered to be a resident of a country other than the Netherlands under the provisions of a double taxation convention the Netherlands has concluded with such country may, depending on the terms of that double taxation convention, be eligible for a full or partial exemption from, or reduction or refund of, Dutch dividend withholding tax. In addition, subject to certain conditions and based on Dutch legislation implementing the Parent Subsidiary Directive (Directive 90/435/EEC as amended by Council Directive 2003/123/EC) an exemption from Dutch dividend withholding tax will generally apply to dividends distributed to entities that are resident of another European Union member state.

Anti-Dividend Stripping Legislation

In general terms, "dividend stripping" can be described as the situation in which a foreign or domestic person (usually, but not necessarily, the original shareholder) has transferred his shares in the Issuer or his entitlement to dividend distributions to a party that has a more favourable right to a refund or reduction of Dutch dividend withholding tax than the foreign or domestic person. In these situations, the foreign or domestic person (usually the original shareholder), by transferring shares in the Issuer or his entitlement to dividend distributions, avoids Dutch dividend withholding tax while retaining his "beneficial" interest in the Issuer's shares and the dividend distributions. This regime may also apply to the transfer of the Issuer's shares or the entitlement to dividend distributions as described above, if the avoidance of dividend withholding tax is not the main purpose of the transfer.

According to Dutch anti-dividend stripping rules, no exemption, reduction, credit or refund of Dutch dividend withholding tax will be granted if the recipient of the dividend paid by the Issuer is not considered the beneficial owner of the dividend as defined in these rules. A recipient of a dividend is not considered the beneficial owner of the dividend if such recipient:

- paid a consideration (in cash or in kind) in connection with the dividend distribution; and
- such payment forms part of a sequence of transactions, whereby it is likely that (i) an individual or legal entity benefited in whole or in part from the dividend, and such individual or legal entity is entitled to a less favourable exemption, refund or credit of dividend withholding tax than the recipient of the dividend distribution; and (ii) this individual or legal entity directly or indirectly retains or acquires a position in the Issuer's shares that is comparable with its position in the Issuer's shares that it had before the sequence of transactions commenced.

The term "sequence of transactions" includes transactions that have been entered into on a regulated stock market and transactions with respect to the sole acquisition of one or more dividend rights or of the establishment of short-term rights of enjoyment on the Issuer's shares (e.g. usufruct).

Dutch Corporate Investors

A holder of the Issuer's shares that is resident or deemed to be resident in the Netherlands for Dutch corporate income tax purposes and that is: (i) a corporation, (ii) another entity with a capital divided into shares, (iii) a cooperative (association) or (iv) another legal entity that has an enterprise or an interest in an enterprise to which the Issuer's shares are attributable, but which is not: (v) a qualifying pension fund, (vi) a qualifying investment fund or (vii) another entity exempt from corporate income tax, will in general be subject to regular corporate income tax under the Dutch Corporate Income Tax Act (*wet op de Vennootschapsbelasting 1969*), currently levied at a rate of 25.5% (tax rates for 2010; 20% over profits up to EUR 200 thousand and 25.5% over profits in excess of EUR 200 thousand) on income derived from the Issuer's shares and gains realized upon acquisition, redemption and disposal of the Issuer's shares.

Any benefit derived or deemed to be derived from the Issuer's shares held by Dutch resident entities, including any actual distributions on the Issuer's shares and actual capital gains realized upon the disposal thereof, will generally be subject to corporate income tax, unless the Dutch participation exemption (*deelnemingsvrijstelling*) applies or unless the benefit is deemed to be included in the cost price of the Issuer's shares. The Dutch participation exemption is generally applicable if such entities own at least 5% of the Issuer's nominal paid-up share capital.

Qualifying Dutch resident pension funds are exempt from Dutch corporate income tax.

Qualifying Dutch resident investment funds (*fiscale beleggingsinstellingen*) are subject to Dutch corporate income tax at a special rate of 0% if they meet certain conditions with respect to their shareholder base and the annual distribution of dividends to their shareholders. Distributions on the Issuer's shares and capital gains realized upon the disposal of the Issuer's shares will be exempt from Dutch corporate income tax or subject to a special rate of 0% in the hands of shareholders who are qualifying Dutch resident pension funds or qualifying Dutch resident investment funds.

Dutch Individual Investors

The 2001 Personal Income Tax Act (*Wet op de inkomstenbelasting 2001*) distinguishes three types of income that are subject to personal income tax, and classifies them under "Box I," "Box II," or "Box III." Box I income includes profits, employment income, income from other activities and deemed income from residential home ownership. Box II income includes income from the Issuer's shares in case of a substantial interest of five percent or more. Box III income includes income from savings and investments. Each box has its own rules for determining the tax base and its own tax rate. Income from Box I is taxed at a progressive rate with a maximum of 52 % (rate for 2010). Income from Box II is taxed at a flat rate of 25 % and income from Box III is taxed at a flat rate of 30 % (rates for 2010).

Generally income derived from the Issuer's shares will be allocated to Box III. The exceptions in which the income is taxed in Box I or Box II are described below.

Box III

Individuals who are resident or deemed to be resident of the Netherlands for Dutch tax purposes, including individuals who have opted to be taxed as a resident of the Netherlands for the purposes of the Dutch Income Tax Act 2001, are in general annually taxed on deemed income in the amount of 4% of their average so-called "yield basis" (*rendementsgrondslag*) for the year at an income tax rate of 30% ("Box III taxation").

The average yield basis for a certain year is calculated as the average of (i) the fair market value of portfolio investments (not including business assets or substantial shareholdings) less the qualifying liabilities at the beginning of that year and (ii) the fair market value of portfolio investments less the qualifying liabilities at the end of that year. The Issuer's shares are generally included as investment assets. An annual tax-free threshold of EUR 20,661 (for the year 2010) is generally available for each Dutch resident individual taxpayer. Because of the fixed yield of 4%, the actual benefits derived from the net portfolio investments, including any actual distributions on the Issuer's shares and actual capital gains realized upon the disposal of the Issuer's shares, are not as such subject to Dutch income tax.

As described above, income derived by individuals from the Issuer's shares will in most cases be subject to taxation in Box III. The income may be taxed differently in the following cases:

Box I

A holder of the Issuer's shares, who is an individual, resident or deemed to be resident in the Netherlands, or who has elected to be taxed as resident in the Netherlands for Dutch income tax purposes, will be subject to regular Dutch income tax on the income derived from the Issuer's shares and the gains realized upon the acquisition, redemption and/or disposal of the Issuer's shares, if the Issuer's shares are attributable to an enterprise from which a Dutch resident individual derives a share of the profit, whether as an entrepreneur (*ondernemer*) or as a person who has a co-entitlement to the net worth of such enterprise, without being an entrepreneur or a shareholder, as defined in the Dutch Income Tax Act 2001. Any benefit derived or deemed to be derived from the Issuer's shares in this case, including any income and capital gains realized on the disposal of the Issuer's shares, will be subject to Box I taxation.

A holder of the Issuer's shares, who is an individual, resident or deemed to be resident in the Netherlands, or who has elected to be taxed as resident in the Netherlands for Dutch income tax purposes, will be subject to regular Dutch income tax on the income derived from the Issuer's shares and the gains realized upon the acquisition, redemption and/or disposal of the Issuer's shares, if the holding and/or disposal of the Issuer's shares qualify as income from "miscellaneous activities" (*resultaat uit overige werkzaamheden*). Any benefit derived from the Issuer's shares in this case will be subject to Box I taxation. The holding and/or disposal can be treated as "miscellaneous activities" in the event that the management of the portfolio of which the Issuer's shares form part exceeds regular active portfolio management.

Box II

A holder of the Issuer's shares, who is an individual, resident or deemed to be resident in the Netherlands, or who has elected to be taxed as resident in the Netherlands for Dutch income tax purposes, will be subject to regular Dutch income tax on the income derived from the Issuer’s shares and the gains realized upon the acquisition, redemption and/or disposal of the Issuer’s shares, if the Issuer’s shares constitute a substantial interest or deemed substantial interest in the Issuer. Any benefit derived from the Issuer’s shares in this case will be subject to Box II taxation.

Generally, a holder of the Issuer’s shares will have a substantial interest in the Issuer if he/she, his/her partner, certain other relatives (including foster children) or certain persons sharing his/her household, alone or together, directly or indirectly:

- hold shares of the Issuer representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of the Issuer’s shares) of the Issuer;

- hold or have rights to acquire the shares of the Issuer (including the right to convert notes or stock options into the shares of the Issuer), whether or not already issued, that at any time (and from time to time) represent 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of the Issuer’s shares) of the Issuer; or

- hold or own certain profit participating rights that relate to 5% or more of the Issuer’s annual profit and/or to 5% or more of the Issuer’s liquidation proceeds.

A deemed substantial interest arises if a substantial interest (or part thereof) has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Non-Dutch Resident Holders: entities and individuals

Distributions on the Issuer’s shares or capital gains realized upon the disposal of the Issuer’s shares by a holder that is not resident, nor deemed to be resident of the Netherlands for Dutch tax purposes (and, in the case of an individual holder, that has not opted to be taxed as a resident of the Netherlands) are not taxable in the Netherlands, provided that:

- such holder does not have an interest in an enterprise or a deemed enterprise that is, in whole or in part, carried on through a permanent establishment, a deemed permanent establishment (a statutorily defined term) or a permanent representative in the Netherlands to which (part of the) enterprise, or to whom, the Issuer’s shares are attributable or deemed to be attributable; or

- such holder is not entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands to which the Issuer’s shares are attributable, other than by way of securities or through an employment contract; or

- the activities of such holder do not qualify as income from “miscellaneous activities” carried out in the Netherlands, as defined under “Dutch Resident Individuals” above; or

- such holder does not have a substantial interest or deemed substantial interest in the Issuer (as defined under “Dutch Resident Individuals” above), or, if such holder has a substantial interest or a deemed substantial interest, it forms part of the assets of an enterprise.

If the non-Dutch resident holder is taxable in the Netherlands pursuant to one of the four eventualities mentioned above, such holder will, in principle, be taxed in the same way as Dutch resident taxpayers, as described above.

If a tax treaty is in force between the Netherlands and the state of residence of the non-Dutch resident holder of the Issuer’s shares and if such holder qualifies as a resident under that tax treaty, capital gains on the Issuer’s shares will, in general, not be taxable in the Netherlands, except insofar as they are attributable to a permanent establishment in the Netherlands.

Non-Dutch resident pension funds which are non-resident taxpayers for Dutch corporate income tax purposes can qualify for the above-mentioned corporate income tax exemption for Dutch-resident pension funds, provided that the conditions formulated by the Dutch State Secretary for Finance in the Decree of 16 May 2006, nr. CPP2005/3043M, are met.

Dutch Gift, Estate and Inheritance Tax

Dutch Resident Holders

Generally, inheritance tax may be due in the Netherlands with respect to an acquisition or deemed acquisition of the Issuer's shares by way of an inheritance or bequest on the death of a holder of the Issuer's shares who is resident or deemed to be resident of the Netherlands, or by way of a gift within 180 days before his death by a holder of the Issuer's shares who is resident or deemed to be resident in the Netherlands at the time of his death. For the purposes of Dutch gift and inheritance tax, an individual with Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For the purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident of the Netherlands if he has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

Non-Dutch Resident Holders

No Dutch gift or inheritance taxes will arise in respect of the acquisition of the Issuer's shares by way of a gift by, or on the death of, a holder who is neither resident nor deemed to be resident in the Netherlands, unless:

- such holder at the time of the gift has, or at the time of his/her death had, an enterprise or an interest in an enterprise that, in whole or in part, is or was carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Issuer's shares are or were attributable, or are or were deemed to be attributable; or

- such holder at the time of the gift is, or at the time of his/her death was, entitled to a share in the profits of an enterprise effectively managed in the Netherlands, other than by way of the holding of securities, or through an employment contract, to which enterprise the Issuer's shares are or were attributable, or are or were deemed to be attributable; or

- in case of a gift of the Issuer's shares by an individual who at the date of the gift was neither resident nor deemed to be resident of the Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his/her death being resident or deemed to be resident of the Netherlands.

Dutch Value-Added Tax ("VAT")

No Dutch VAT will arise in respect of the acquisition, ownership and disposal of the Issuer's shares.

Other Dutch Taxes and Duties

No Dutch registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable by a holder of the Issuer's shares in respect of the subscription, issue, placement, allotment, holding or disposal of the Issuer's shares.

Taxation in Poland

This section provides information regarding the taxation of income related to holding and trading in shares admitted to trading on the regulated market. For the avoidance of doubt, all references to shares presented in this section also pertain to the Shares.

The information presented below is of a general nature and should not constitute the sole basis for evaluating the tax consequences of making any investment decisions. Potential investors are urged to consult their tax advisors. Please note that the information presented below has been prepared based on the legal statutes as at the date of the Prospectus.

Polish Corporate Investors

Taxation of Income Relating to Holding Shares

Dividends and other income (revenue) actually earned on holding shares (such as remuneration for redeemed shares, liquidation proceeds) by legal persons and capital companies in organization, as well as other unincorporated entities (except civil, general, limited partnerships, professional partnerships, and limited joint-stock partnerships) with their registered office or place of management in Poland (the "Polish Corporate Shareholders"), shall be subject to taxation in Poland under the Corporate Income Tax ("CIT") Act. They are taxed at the basic 19% rate.

Pursuant to Art. 20 section 3 of the CIT Act, an income tax exemption applies to dividends and other revenue earned on the holding of shares in companies whose registered or management office is outside Poland by Polish companies whose worldwide income is subject to CIT in Poland, regardless of where the source of income is located, if all of the following conditions are met:

- the entity which distributes the dividends and other revenue earned on shares is a company whose worldwide income (regardless of where the source of income is located) is subject to income tax in a European Union Member State other than Poland, or in a other Member State of the European Economic Area;

- Polish company holds directly not less than 10% of shares in the capital of the company referred to in item (a) above for an uninterrupted period of at least 2 years.

CIT Act expressly provides that in order to benefit from the above exemption, the 2-year holding period requirement may be also met after the dividend is paid, provided that a given taxpayer would actually satisfy that requirement afterwards. Otherwise, a taxpayer who did not meet the 2-year holding period requirement would be obliged to pay the due income tax along with penalty interests.

The above exemption will not apply, however, if distributions are made upon liquidation of a company.

Moreover, dividends paid out by a Dutch company to Polish Corporate Shareholders may be exempt from Dutch withholding tax under Council Directive of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, provided that the conditions specified by the Dutch tax laws are satisfied.

The Double Tax Treaty concluded by the Republic of Poland and the Kingdom of the Netherlands ("Double Tax Treaty") provides that dividends paid by a company with its registered office in the Netherlands to Polish Corporate Shareholders may be taxed both in Poland and the Netherlands, although such Dutch tax cannot exceed 5% of the gross amount of the dividend if the recipient of the dividend is a company (other than a partnership) holding at least 10% of the capital of the Dutch company distributing the dividend, or 15% of the gross amount of the dividend in all other situations.

It should be noted that in relation to the dividends which may be subject to taxation in the Netherlands, pursuant to Art. 23 sec. 5(a) of the Double Tax Treaty, a tax credit applies in Poland.

Pursuant to the provisions of the Double Tax Treaty, if a Polish Corporate Shareholder carries on business in the Netherlands through a permanent establishment situated in the Netherlands g (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on), and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment, dividends will be taxed in the Netherlands as business profits earned by that permanent establishment.

Taxation of Income from Disposal of Shares

Income earned by Polish Corporate Shareholders on disposal of shares of a Dutch company is subject to corporate income tax in Poland in accordance with the general rules. This income is aggregated with the business incomes of the given fiscal year, and subject to the general 19% CIT rate.

The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale).

However, it should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, such agreed price may be challenged by the tax authorities.

Polish Individual Investors

Taxation of Income Relating to Holding Shares

Income earned by individuals domiciled in Poland (the "Polish Individual Shareholders") on dividends from a Dutch company is considered income from a separate basket and it is not aggregated with incomes from other sources. Such income is subject to the 19% flat rate Personal Income Tax ("PIT"). The tax is settled on an annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which the income was earned.

It is not absolutely clear whether the tax due on dividend income earned by a Polish Individual Investor from a Dutch company shall be withheld by a Polish brokerage house assisting in the payment or not. On the one hand, there is a regulation (Art. 41 sec. 4 of the PIT Act) that clearly imposes on brokerage houses the obligation to withhold the tax. On the other hand, there is a regulation which provides that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be reported by a taxpayer (i.e. Polish Individual Investor) in his annual tax return (Art. 30a sec. 11 of the PIT Law). Most tax advisers seem to regard the latter provision as overruling the first one, and are thus of the opinion that a Polish brokerage house should not withhold any tax. However, in case of any doubt, a tax adviser should be consulted by the taxpayer.

The Double Tax Treaty provides that dividends paid by a company with its registered office in the Netherlands to Polish Individual Shareholders may be taxed both in Poland and the Netherlands, but such Dutch tax cannot exceed 15% of the gross amount of the dividend.

It should be noted that in relation to dividends which may be subject to tax in the Netherlands, the tax credit method of avoidance of double taxation shall apply in Poland, pursuant to Art. 23 sec. 5(a) of the Double Tax Treaty.

Pursuant to the provisions of the Double Tax Treaty, if the Polish Individual Shareholder carries on business in the Netherlands through a permanent establishment situated in the Netherlands (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on) or performs in the Netherlands independent personal services from a fixed base situated in the Netherlands, and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment or fixed base, dividends will be taxed in the Netherlands as business profits or as income from independent personal services earned by that permanent establishment or fixed base.

Taxation of Income from Disposal of Shares

Income earned by Polish Individual Shareholders on the sale of shares should be classified as income from capital gains and as such it should not be combined with incomes from other sources but should be subject to the 19% flat PIT rate.

The income is computed as the difference between the revenue earned on disposal of shares (in principle, the price for the shares) and the related costs (in principle, the costs of acquisition of the shares and costs related to the sale). The tax is settled on an annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned (this also being the deadline for paying the tax). No obligation exists to pay tax advances during the tax year.

The above is not applicable if a Polish Individual Shareholder holds the shares within the scope of its business activity. If this is the case, the income should be classified as business income. In such a case, income tax shall be paid at the progressive tax rates, which varies from 18% to 32%, or at the 19% flat rate (depending on the form of taxation chosen by the given Polish Individual Shareholder).

It should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, this may be challenged by the tax authorities.

It should also be noted that pursuant to Art. 9 section 6 of the Polish PIT Act, losses incurred during a fiscal year on account of the disposal of shares may be deducted from the income received from that source over five consecutive fiscal years, provided that the amount of the deduction does not exceed 50% of the amount of the loss in any single fiscal year of the five-year period.

Foreign Investors

Individuals who do not have their place of residence in Poland and legal entities, companies in organization and other entities with no legal personality, if they are treated as tax residents under the tax law of a given state, that have their registered office and place of management outside Poland are subject to PIT and CIT respectively, only with respect to the profits that are derived sources of income from the territory of Poland.

Although this is not expressly provided for in Polish tax law, it should be noted that dividends from a Dutch company should not be treated as income derived from Poland, even if the company is listed on the Warsaw Stock Exchange. Consequently, it should be noted that dividends paid by a Dutch company to a foreign investor should not be subject to Polish income tax.

Polish tax law does not give clear direction on whether income from a sale of shares of a Dutch company should be treated as income derived from Poland if the shares are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock Exchange shall be treated as, Polish source income. Consequently, as a rule, such income would be subject to Polish income tax and settled on general rules. In practice, however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

Tax on Civil Law Activities

The tax on civil law transactions ("TCLT") is levied on agreements providing for a sale or exchange of rights, provided that these rights are executed in Poland or, if executed abroad, that the purchaser is a Polish tax resident and the transaction is effected in Poland.

The tax rate on the sale of shares and the exchange of shares is 1% at their market value and should be paid within fourteen days of the date on which the tax obligation arose (that is, the date the sale or exchange agreement is concluded), unless the sale of shares and the exchange of shares agreements are concluded in a form of a notary deed. In that case the due tax should be collected by the notary public acting as a tax remitter. The purchaser of shares is liable for paying the due tax on civil law transactions. In the case of an exchange of shares, the liability for paying the due tax is borne jointly and severally by the parties to the exchange of shares transaction.

Exemptions from the tax on civil law transactions apply, without limitation, to transactions concerning the sale of property rights constituting financial instruments (including shares) to investment firms or, through them, and the sale of such property rights within the boundaries of a regulated market, as defined in the Polish Act on Trading in Financial Instruments.

Taxation in Ukraine

General

For all the numerous amendments, which have been permanently introduced to Ukraine's tax legislation, the taxation system in Ukraine has a number of marked flaws as far as doing business is concerned. Tax laws, regulations and practices in Ukraine are not as clearly established as those of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect.

A solution for dealing with the taxation problem in Ukraine could be the adoption of a Tax Code as a uniform document, governing both individual taxes and duties and their administration and the country's taxation system as a whole. To date the text of the Draft Tax Code is under public discussion. The Government should summarize feedback and submit it to the Parliament of Ukraine by September 5, 2010. The Committee of Verkhovna Tada on Tax and Customs Policy should prepare the final version of the Tax Code by September 10, 2010.

Ukrainian corporate profits tax

A resident company, that is a company incorporated in Ukraine, is liable for taxation in Ukraine on its world-wide income.

A foreign legal entity will be taxed in Ukraine on: (i) its profit derived from its commercial activity undertaken on the territory of Ukraine through a permanent establishment; and (ii) income derived from sources within the territory of Ukraine in the form of, inter alia, dividend payments, interest payments, capital gains, etc., if its business carried on in Ukraine does not rise to the level of a permanent establishment. Ukrainian source income should be taxed at the time of the remittance, and such taxes will be withheld from the sums remitted.

The corporate income tax rate is established at the level of 25%.

The corporate income tax is levied on "profits," which are considered to be equal to the adjusted gross income of the taxpayor in any given reporting period less all allowable expenses and depreciation allowances. "Gross income" is defined as the aggregate income received (accrued) by a taxpayor both within and outside of the territory of Ukraine in monetary, in-kind, or non-material forms from all of its activities carried out in Ukraine and abroad during the reporting period.

All reasonable business expenses of the corporate taxpayor are allowed as deductions.

However certain deductions are expressly limited or prohibited by law:

- expenses which are not related to the business activities of the Ukrainian corporate taxpayor are non-deductible;

- expenses incurred in connection with the acquisition of land plots are neither deductible nor subject to depreciation allowances, except where land is acquired together with a building or other real estate object located on it;

- according to a "transfer pricing" restriction certain types of payments to affiliated persons in excess of arm's length are non-deductible. Parties are "related" if, *inter alia*, one party controls, directly or indirectly, shareholding interests representing more than 20% of the charter capital of the other party. In the relationship between related parties, all prices must be determined at "arm's length", that is, at the market rate. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate, nor does it provide any "safe harbor" in the case of any deviation from such market rate. If prices would be deemed as having been established at rates different from market rates, the taxpayor may be assessed an additional tax liability computed by reference to the amount of the price deviation.

- according to an "earning stripping" restriction interest on a shareholder loan is non-deductible under certain conditions; and

- according to a "tax haven deductibility" restriction only 85% of the sum transferred by the taxpayor to foreign entity located in a tax haven jurisdiction is deductible. As such, service fees paid (a) for the benefit of, (b) through the mediation of, or (c) to or through the bank account of, a foreign service provider, if such provider will be deemed to be a resident of a tax haven jurisdiction, such as Jersey, Guernsey, Isle of Man, Andorra, Monaco, the British Virgin Islands, Cayman Islands, and the Netherlands Antilles should be tax deductible only 85% of the sum of such service fee.

A resident company having branches may choose to pay the consolidated corporate income tax to the budget of the territorial community whereby the branch is located and to the budget at the resident's company registration. In this eventuality, the corporate income tax should be reduced by the amount of the tax paid to the budgets of the territorial community of the branch.

The choice of the procedure of the payment of the consolidated corporate income tax should be made by the taxpayor independently before 1 July of the year preceding the reporting year. No changes in the procedure of the tax payment during the reporting year are allowed.

As a general rule, losses can be carried forward indefinitely. However, in the year 2010, losses, reported on January 1, 2010 and not been extinguished during 2010, may be reported as deductible expenses in 2010 at the level of 20% of the total sum of losses. The remaining amount of losses incurred as of January 1, 2010 and not reported during 2010 may be reported as deductible expenses in 2011 without limitations.

Ukrainian fixed agricultural tax

Under certain conditions, a resident company, producer of agricultural products in Ukraine may elect to be treated as a payor of a fixed agricultural tax. In particular, an agricultural enterprise engaged in the production, processing, and sale of agricultural products may, in a given year, choose to be registered as a payor of a fixed agricultural tax should its "proceeds from the sale of agricultural products of a payor's own production and items of such products processing" exceed 75% of all of its sale proceeds of a previous reported year. In this eventuality the taxpayor will be exempt from Ukrainian corporate income tax, land tax, municipal tax, duty for the state financed geological exploration, trade patent duty, and duty for special water.

The tax liability of the payor of fixed agricultural tax is ascertained by reference to the total area of land, which is leased or owned by the payor, and is computed by means of applying a certain coefficient to the normative monetary value of such land.

Fixed agricultural tax should be paid every month, within 30 calendar days following the last calendar day of the basic reporting period, i.e. month, namely one-third of the amount determined for every quarter, with regard to the annual amount payable, in particular: I quarter: 10%; II quarter: 10%; III quarter: 50%; IV quarter: 30%.

Ukrainian withholding tax

A foreign entity is liable for the payment of withholding tax with respect to all "Ukrainian-source" income. Ukrainian source income, including, inter alia: interest payments, dividends, royalties, lease payments, proceeds from real estate sales on the territory of Ukraine, profits from securities transactions, profits from joint activity agreements or long-term agreements, broker or agency fees, and other kinds of income derived by a foreign entity from its business activity on the territory of Ukraine.

However, income of a foreign entity received in the form of payment or other kind of compensation for the value of goods (works or services supplied from abroad by a foreign entity (or its permanent establishment) to a resident shall not constitute Ukrainian-source income.

The withholding tax rate is established at the level of 15%.

Withholding tax rate to be withheld by a resident entity or by a permanent establishment of a foreign entity from the amount of any Ukrainian-source income, if and when such foreign entity's Ukrainian-source income is remitted to such foreign entity.

This withholding tax may be reduced, or entirely eliminated, by virtue of the operation of an applicable tax treaty on the avoidance of double taxation between Ukraine and the relevant jurisdiction. Currently, Ukraine has a network of 68 tax treaties.

The Issuer directly holds shares of Milkiland Ukraine, a Ukrainian holding company. By virtue of the operation of the Convention between the Government of the Kingdom of Netherlands and Ukraine for the Avoidance of Double Taxation of Income and Property, dated October 24, 1995 (the "Tax Treaty") a tax resident of Netherlands receiving Ukrainian source income in the form of dividends, interest, royalty etc. should, in principle, be subject to reduced withholding tax or exempt from payment of the withholding tax with respect to such income.

Taxation of dividends: if the investment of tax resident of Netherlands to the charter capital of the Ukrainian company should constitute not less then 50% of the capital of the company and provided it would not be less then US $ 300 thousand (or its equivalent in the national currency), dividend payment should be exempt from Ukrainian withholding tax. If tax resident of Netherlands would hold at least 20 % of the capital of the Ukrainian company and would be viewed to be the beneficial owner with respect to dividends paid by such Ukrainian company, such dividends would be subject to reduced 5% of Ukrainian withholding tax. In all other cases the withholding tax rate would constitute 15%.

Taxation of interest: if the recipient of the interest is tax resident in the Netherlands the tax so charged shall not exceed 2% of the gross amount of interest, if the interest is paid with respect to a loan granted by the bank or a financial institution, or the interest is paid by the purchaser of machinery equipment to the seller of such machinery equipment. In all other cases the withholding tax rate would constitute 10%.

Taxation of royalty: if the recipient of royalty is tax resident in the Netherlands and is viewed to be the beneficial owner of the royalty, the tax so charged shall not exceed 0% for the use of the right to use any copyright of literary and artistic work, and 10% for the use or the right to use any copyright of scientific work, patent, trade mark, design or model, plan, secret formula, or information concerning industrial, commercial or scientific experience.

All dividends, interest and royalty payments may be subject to reduced withholding tax rate under the Tax Treaty, provided, that such Ukrainian source income will not be attributable to a permanent establishment of the tax resident in the Netherlands in Ukraine. In order to claim the Tax Treaty relief, the tax resident in the Netherlands will be required to provide the Ukrainian payor of the Ukrainian source income, on or prior to the payment date, with a residence certificate for the relevant fiscal year in the prescribed form, to confirm the fact that the recipient of such income is a tax resident of Netherlands for purposes of the Tax Treaty.

Ukrainian value added tax

General

The Ukrainian or non-Ukrainian legal entity will be required to pay VAT, if, *inter alia*, that entity:

- sells goods (or provided works or services) subject to VAT on and within the customs territory of Ukraine during the last 12 calendar months with an aggregate value in excess of UAH 300 thousand (approximately US $ 38 thousand);

- imports (ships) goods and concomitant services into the customs territory of Ukraine; or

- exports goods outside the customs territory of Ukraine; and

- supplies goods (services) on the customs territory of Ukraine via global or local computer networks.

The value added tax rate is established at the level 20% of the contractual value of the relevant goods (services), but not less than the arm’s length value thereof (which value, in connection with the importation of goods into Ukraine, includes any excise duty, imports duty, and other tax or payment required by the applicable Ukrainian legislation).

A 0% tax rate is provided by the VAT Law for the exports of goods and concomitant services, which effectively means a VAT exemption for exporters with entitlement to claim input VAT offset under applicable conditions and procedures.

Special VAT Regime for Agricultural Enterprisers

Under certain conditions, a resident company, Ukrainian agricultural producers may elect to be treated as subject to the special VAT regime. According to this special regime, they are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20%) and the VAT that they pay on items purchased for their operations. The amount of subsidy received as a result of the application of this special VAT regime may be used for agricultural purposes as well as for any other business purposes.

A resident company shall be viewed to be the agricultural enterprise if its main business would be supply of agricultural products and services, produced (provided) by such resident company at its own or leased production facilities, as well as on a tolling basis. The volume of such operations should constitute at least 75 % of the total volume of all operations on supply of products/ services over the previous twelve consecutive months.

Agricultural products are products, listed in groups 1 to 24 of UKT ZED of the Law of Ukraine "On Customs Tariff of Ukraine", provided that such products are grown, fattened, caught or collected (gathered) directly by an agricultural enterprise and/or products, produced/processed from such agricultural products. In order to become eligible for special VAT regime, a resident company should get registered with the tax authorities and receive the certificate of a subject to special VAT tax regime, applicable for agricultural enterprisers. The certificate should list, inter alia, types of economic activities of such resident company.

VAT Subsidies for the Dairy Industry

Under applicable law, Ukrainian dairy producers should use the VAT that they charge on their dairy products (currently at a rate of 20%) solely for the purpose of the payment of subsidies to the producers of raw milk, as opposed to remitting such amounts to the state treasury. The subsidy is calculated as the difference between the VAT that diary producers charge on their diary products (currently at a rate of 20%) and the VAT that they pay on raw milk purchased from the raw milk producers. The amount of subsidy received as a result of application for this special VAT regime should be paid by the diary producers to the special accounts. The amount of subsidy received by the producers of raw milk as a result of the application of this special VAT regime may be used for the increase of the working capital. The dairy producers determine those subsidies depending on own business development and agree them with local departments of agricultural authorities. A size of the subsidy is calculated in monetary units per quantity of purchased products and equalled to all agricultural producers supplying goods of same qualitative characteristics.

The processing enterprise files one short-form VAT return, if it provides activities solely with agricultural producers and sales goods on local markets. If the processing enterprise provides other business activities, including exports of goods, it files two VAT returns – (i) the short-form for agricultural activities and (ii) the general form for such other activities, and pays VAT for such activities as a general VAT payer.

The control over the usage of the special agricultural regimes is provided by local tax authorities, local departments of agriculture, local financial departments, local treasury departments, and the new authority introduced in 2010 – local departments of purchases and quality of agricultural products.

VAT Refund

In most cases when exports operations constitute a significant part of company's business, a Ukrainian company may be subject to a VAT refund. If the amount of the input VAT for the period of two consecutive months exceeds the amount of the output VAT the company may claim a VAT refund from the state treasury. The amount of VAT refund may not exceed the amount of VAT actually paid by the company to the suppliers of goods during the preceding month. The amount of outstanding VAT refund is included into VAT input of the next months.

Refund of VAT by the state is a constant problem of companies operating in Ukraine. The difficulty in VAT refund is an obstacle for investing in the exports-oriented sector. One of the main problems the companies face with VAT refunds is the delay and complexity of inspections. Currently, the VAT refund issue is partially resolved through the mechanism of issuance of VAT bonds. Tax payors, who had declared a VAT refund before 1 May 2010 that was confirmed by tax inspections and not refunded may apply to exchange the VAT refund for VAT bonds. According to the applicable legislation taxpayors have a possibility to get VAT refund bonds starting from 1 August 2010.

Ukrainian payroll-related taxes

Under the applicable Ukrainian social insurance legislation, an employer is liable for making the following mandatory state social insurance payments with respect to its employees for purposes of:

(i) temporary disability, birth, and burial insurance -1.4%;

(ii) unemployment insurance – 1.6%;

(iii) pension insurance – 33.2%; and

(iv) industrial accident and professional disease disability insurance 0.56% to 13.5%.

The taxable base for payments is the salary-related remuneration.

The aforementioned taxable base is, however, capped by reference to the "maximum" taxable base. Any portion of the taxable base in excess of the "maximum" taxable base is exempt from taxation for the purposes of mandatory state social insurance. Effective as of July 1, 2010, the liability of employers and employees with respect to mandatory state social insurance payments is capped by reference to the maximum taxable base of UAH 13,320 (equivalent of approximately EUR 1,270); as of October 1, 2010 UAH 13,605 (equivalent of approximately EUR 1,295); as of December 1, 2010 UAH 13,830 (equivalent of approximately EUR 1,317) per employee per month.

The employer's overall tax liability vary from 36.76% to max 49.7% of each of its employees' monthly salary-related remuneration capped by reference to the "maximum" taxable base, depending on the trauma risk level of the particular industry sector, in which the employer operates.

In addition, an employee is liable for making the mandatory state social insurance payments for purposes of:

(i) temporary disability, birth, and burial insurance – 0.5% or 1%;

(ii) unemployment insurance – 0.6%; and

(iii) pension insurance – 2%.

The employee's overall tax liability may vary from 3.1% to 3.6% of his/her gross remuneration, depending on the actual amount of such remuneration capped by reference to the "maximum" taxable base.

Ukrainian land tax

The payments for land are established in the form of a land tax or a land lease payment, which is determined on the basis of an assessment of the value of the land. The owner of the land (other than the state) is required to pay the land tax. Under a land lease agreement, the lessee must pay a rent payment, but is not responsible for the payment of the land tax.

The land tax for the land within the cities is established at the level of 1 % per annum of the “pecuniary (monetary) valuation” of land and, if purchased, not less than the purchase agreement value. This tax is paid on a monthly basis at 1/12 of the annual tax.

The land tax for agricultural land is established in %s per annum of the “pecuniary (monetary) valuation” of land, in particular:

- ploughed fields, hayfields, and pastures - 0.1%;

- perennial plantations - 0.03%.

The land tax for land plots of industries, transport, communications, etc. is established at the rate 5 percent of the “pecuniary (monetary) valuation”.

The pecuniary valuation of land is carried out by the State Committee of Ukraine on Land Resources in accordance with the method adopted by the CMU. This method accounts for various factors including, but not limited to, the location of a particular plot of land, the purpose for which the land is to be used.

The pecuniary valuation of a particular plot of land is carried out only once. For each of the following years the original valuation is adjusted by a coefficient of indexation, which is established for the relevant year in accordance with the procedure adopted by the CMU.

The land tax would apply to land plots to which the “pecuniary (monetary) valuation” was adjusted as of 1 January 2010. The payor of fixed agricultural tax is exempt from land tax.

Taxation in Russia

The Russian tax system includes federal (established by the federal authorities and applied to all entities doing business in Russia), regional (established by the regional authorities within the limits authorized by the Russian

Tax Code and applied to entities registered or doing business in a particular region) and local (established by the local authorities within the limits authorized by the Russian Tax Code and applied to entities registered or doing business in a particular municipality) taxes.

Profits Tax

Russian manufacturers of dairy products (dairy plants) are subject to the general tax regime except for agricultural producers using their own alimentary materials. The general profits tax rate is currently 20% (24% before 2009). The tax is payable at a rate of 2% to the federal budget and 18% to regional budgets. The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 13.5%. The Moscow authorities do not currently provide for a reduced profits tax rate or any other specific incentives to diary plants.

Taxable profit is defined as income less deductible expenses. Under the current rules, a taxpayer is generally permitted to deduct economically justified and documentarily confirmed business expenses. Deductions of certain types of expenses are subject to restrictions (e.g. certain advertising costs and representational, including business entertainment).

The Russian tax authorities have recently taken a more aggressive approach and disallowed deduction of expenses to companies with respect to their transactions with non-bona fide or “fly-by-night” suppliers if the taxpayer failed to diligently check their counteragents. Russian courts often support such tax assessments.

The Russian Tax Code contains the transfer pricing rules. Specifically, it sets forth the presumption that the contractual price agreed to by the parties is the “market price.” The Russian tax authorities are entitled to control barter transactions, foreign trade transactions and transactions involving significant variations in prices (i.e. a fluctuation of more than 20%) for identical goods or services within a short period of time. The Russian tax authorities can adjust the contract price based on the market value in case of a more than 20% price deviation and impute additional taxes, penalties, and late payment interest accordingly.

Assets with a value exceeding RUR 20 thousand (RUR 40 thousand starting from January 1, 2011) and a useful life of more than 12 months are subject to depreciation. The Russian Tax Code allows taxpayers to split assets into ten groups, depending on the type of asset and its useful life, and, in certain cases, to apply accelerated depreciation rates. Taxpayers are allowed to write off 10% (or 30% for some categories of assets) of a capital asset value as a one-off investment incentive deduction at the time the asset is put into service; if the taxpayer alienates any capital asset during the first five years of its use, the investment incentive deduction must be recaptured.

Interest on a loan is deductible as long as it does not deviate by more than 20% from market interest rates paid on comparable loans in the same calendar quarter. Any excessive part of the interest is non-deductible. If no such comparable loans exist (or at the election of a taxpayer), interest is deducted within certain limits; for Rouble loans, the deductible interest may not exceed 180% of the Russian Central Bank refinancing rate, and for loans denominated in a foreign currency, the deduction is limited to 15% per annum (0.8 of the Russian Central Bank refinancing rate starting from January 1, 2011). The Russian Central Bank refinancing rate is currently 7.75%.

The Russian thin-capitalization rules apply in situations where the debt-equity ratio is more than 3 to 1 with respect to controlled debt (a higher ratio is set for banks and leasing companies). For purposes of the Russian thin-capitalization rules, the only debt that is relevant as controlled debt is (i) the debt from foreign shareholders that hold directly or indirectly more than 20% of the charter capital of a Russian company, (ii) the debt from Russian organizations recognized as being affiliated to the 20% direct or indirect foreign shareholders (the Russian Tax Code does not define affiliation, but the Russian anti-monopoly legislation defines affiliation in a very broad way) or (iii) the debt is guaranteed or is otherwise secured by the previous two categories. In case the ratio is exceeded, the interest paid on the excess debt is non-deductible and considered to be a dividend payment to the foreign shareholder and, hence, is subject to a 15% withholding tax, unless the latter is reduced or eliminated by an applicable tax treaty.

Losses may be carried forward for ten years. Also, there is no requirement to spread the loss over the entire carry-forward term. Losses carry back is not allowed.

Value Added Tax (the "VAT")

VAT applies to Russian and foreign companies selling goods, performing works/services and transferring intellectual property rights insofar as the relevant taxable events are effected in Russia. VAT is also imposed on the importation of goods into Russia. Under the Russian place of supply rules, works/services are generally deemed to be performed in Russia if the relevant provider is a Russian company or a foreign company acting through a permanent establishment in Russia (with the exemption for consulting, advertising and certain other services).

The general VAT rate is 18%, it applies to sale/provision of most goods and services. A lower 10% rate applies to limited types of goods, including milk and milk products (including milk-based ice-cream) by the list adopted by the Russian Government. The list includes all or most of the Ostankino products. Hence, Ostankino is entitled to apply 10% reduced VAT rate on most of its sales; sales of non-milkbased products and provision of services is subject to the general rate. In the past the Russian tax authorities challenged the application of a reduced tax rate to products containing both general and incentivized ingredients, this may bear a risk for some new or complex products.

A company that performs activities that are subject to VAT is generally allowed to set-off any input VAT paid for raw materials and products, equipment, goods or services. An enterprise ends up transferring to the state only the difference between VAT paid and VAT collected.

Russian Payroll Taxes

Before 2010 the unified social tax (combining payments to the various Russian social funds) applied on a gross payroll of employees according to a regressive rate schedule ranging from 26% to 2%, depending on the level of employee's annual salary. The State Pension Fund contributions were credited against the unified social tax liability. The tax was paid solely by the employer and was payable with respect to all Russian-based employees and contract workers.

Effective as of January 1, 2010, the unified social tax was replaced by separate contributions to the State Pension Fund, the Social Security Fund, the Federal Medical Insurance Fund and the Territorial Medical Insurance Funds. The social security contributions apply at an aggregate rate of 34% (26% in 2010) of an employee's annual salary of up to RUB 415 thousand resulting in escalation of payroll taxes for companies. The maximum threshold may be adjusted by the Russian Government; the portion of an employee's annual salary in excess of the threshold is exempt from the social security contributions. The tax base and most of the procedural rules for social security contributions copy those of the unified social tax.

Accident Insurance Contributions

Companies are required to make additional monthly mandatory contributions to the Social Security Fund to cover labour accidents. This contribution is calculated as a percentage of the employee's salary at the current rate that varies from minimum 0.2% to maximum 8.5% of the employee's salary, depending on the class of professional hazard. The minimum rate applies to the lowest, 1st class of professional hazard, covering the majority of desk workers, and the maximum rate applies to the highest, XXXII-nd class of professional hazard (e.g. mining industry). These rates and classes of professional hazard may be reviewed on an annual basis by Russian law. According to the classification, dairy plant workers belong to III-d class of professional hazard, the accident insurance contribution for this class is 0.4% of the employee's salary.

Property Tax

The property tax is a regional tax and is currently levied at the rate of up to 2.2% of the average annual book value of fixed assets (except for land) per annum. The property tax rate is established by regional legislative bodies. The Tax Code permits regional legislative bodies to establish tax incentives for certain categories of taxpayers; the Moscow authorities apply maximum 2.2% property tax rate.

Land Tax

The land tax is a local tax and applies to owners of land at rates, established by the municipal authorities according to rate limits set by the Tax Code, which vary from 1.5% (maximum rate) on the cadastre value of a land plot to 0.3% (maximum rate) on the cadastre value of agricultural land or land plots under residential housing. The Moscow authorities apply maximum 1.5% land tax rate.

Transportation Tax

The Transportation tax is an annual regional tax payable by persons in whose name the vehicles are registered at the tax rates depending on a vehicle type and engine horsepower. Regional legislative bodies are permitted to establish tax incentives for certain categories of taxpayers. The tax rates for vehicles have recently been increased.

Tax Implications on Dividend Distribution

Under the Netherlands-Russia double tax treaty, the dividends distributed by Ostankino to the Issuer will be subject to a 5% reduced withholding tax (the domestic withholding tax rate is otherwise 15%) to the extent that the Issuer is otherwise entitled to benefit from the relevant double tax treaty. In order to be eligible for a reduced tax rate on dividends the Issuer must provide to Ostankino a certificate issued by the Dutch tax authority certifying as to the Issuer's tax residency in the Netherlands for tax purposes. Such certificate would need to be apostilled in the Netherlands or, otherwise, properly legalized with the Russian Consular Office (or where permissible, the Embassy) in the Netherlands. Such certificate of residency, together with the apostille or legalization, should be translated into the Russian language and such translation should be certified before a notary in Russia. Such certificate of residency should be renewed at the beginning of each calendar year.

INDEPENDENT AUDITORS

BDO LLC, Ukraine, independent auditors, with their address at Kharkivske Road, 201/203, Kyiv, 02121, Ukraine, have audited combined financial statements of Milkiland B.V. and Milkiland Corporation for the years ended 31 December, 2007 and 2006.

BDO Ukraine has given, and has not withdrawn, their written consent to the inclusion of their report and the reference to themselves herein in the form and context in which they are included. The signatory of the independent auditors' report on audited combined financial statements of Milkiland B.V. and Milkiland Corporation for the years ended 31 December, 2007 and 2006 are members of the ACCA (Association of Chartered Certified Accountants).

BDO Audit & Assurance B.V., the Netherlands, independent auditors, with their address at Bijster 49-55, 4817 HZ Breda, the Netherlands, have audited consolidated financial statements of the Issuer for each of the financial years ended 2008, 2009 and reviewed semi annual consolidated financial statement of the Issuer for first half year of 2010 with comparable figures for first half year of 2009.

BDO Netherlands have given, and have not withdrawn, their written consent to the inclusion of their report and the reference to themselves herein in the form and context in which they are included. The signatory of the independent auditors' report on audited the consolidated financial statement of the Issuer for the years ended 31 December 2008 and 2009 of Milkiland N.V. are members of Royal NIVRA (*het Koninklijk Nederlands Instituut van Registeraccountants*).

Within the period covered by the historical financial statements no auditor resigned, was dismissed or not appointed for the next year

Under the Issuer’s Articles of Association, the Issuers's auditor is appointed by the Board of Directors.

The Issuer believes that the auditor appointed by the Board of Directors to audit the financial statements included in this Prospectus is independent from the Issuer, as defined by relevant laws.

ADDITIONAL INFORMATION

Capitalized terms used in this Prospectus and not otherwise defined herein have the meaning ascribed to such terms in Annex I "Defined Terms".

This Prospectus has been prepared by the Issuer in connection with the Offering and Admission solely for the purpose of enabling a prospective investor to consider an investment in the Offer Shares. The information contained in this Prospectus has been provided by the Issuer and other sources identified herein.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read this Prospectus in its entirety, and in particular, the section "*Risk Factors*", when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice and not rely exclusively on the legal, financial or tax information contained in this Prospectus.

Save for the provisions of mandatory laws, no person is or has been authorized to give any information or to make any representation in connection with the Offering and/or Admission, other than as contained in this Prospectus, and if given or made, any other information or representation must not be relied upon as having been authorized by the Issuer, or by the Managers.

The corporate governance structure of the Issuer is set out in its Articles of Association which are available on the Issuer's website: www.milkiland.nl.

Responsibility for this Prospectus

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its imports.

Neither the delivery of this Prospectus nor any sale made hereby at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or any of its subsidiaries or the Company and its subsidiaries taken as a whole (the "Milkiland Group", the "Group") since the date hereof or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

Neither the Managers nor the legal advisers to the Issuer accept any responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with the Issuer or the Offering. The Managers and the legal advisers to the Issuer accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement. No representation or warranty, express or implied, is made by the Manager as to the accuracy or completeness of the information set forth herein and nothing contained in this Prospectus is, or shall be relied upon as a promise or representation, whether as to the past or the future.

Notice to Prospective Investors

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or any solicitation or invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such an offer or solicitation or invitation would be unlawful. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to the purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties and will be required to take certain actions described in particular in "*The Offering and Plan of Distribution*", which will be relied upon by the Issuer, the Managers and others. The Issuer and the Selling Shareholder reserve the right, in its sole and absolute discretion, to reject any purchase of Offer Shares that the Issuer, the Selling Shareholder, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See, in particular: "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other Unites States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Presentation of Financial and Other Information

In this Prospectus, the terms "Issuer", "Milkiland Group", "the Group", "Milkiland" and similar terms refer to Milkiland N.V. and its direct and indirect consolidated subsidiaries, unless the context requires otherwise. Unless otherwise noted, references to "management" are to the members of the Board of Directors and the Kay Management, and statements as to the Issuer's beliefs, expectations, estimates and opinions are to those of the Issuer's management. The term "Operating Companies", refers to DE - Milkiland Ukraine and its Subsidiaries and term "Group Subsidiaries" refers to any direct or indirect subsidiary of the Company, if the context indicates.

The Company maintains its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC") and as applicable in the respective years. The financial statements included in this Prospectus comprise: (i) semi annual consolidated financial statement of the Company for first half year of 2010 with comparable figures for first half year of 2009; (ii) audited consolidated financial statement of the Company for the year ended 31 December, 2009; (iii) audited consolidated financial statement of the Company for the year ended 31 December, 2008, (iv) Combined financial statements of Milkiland B.V. and Milkiland Corporation for the years ended 31 December 2007 and 2006; (collectively "Financial Statements").

The Company believes it has a complex financial history in the meaning as prescribed in the Prospectus Regulation. The Prospectus Regulation stipulates that in case when the issuer's business is not fully reflected in the historical financial information relating to the issuer and consequently the historical financial information may not constitute sufficient information that allows investors to make informed assessment whether to invest in offered securities, such issuer should consider whether to include other financial information relating to another entity. Since the Company was established in 2007 and had no operation till acquisition of Group Subsidiaries in 2008, the Company's financial statements covering 2007, namely the audited non-consolidated financial statements of the Company for the year ended 31 December, 2007, does not provide information as to the results of operations of the Group Companies in that year. Starting from 2008, the Company has consolidated its financial results with financial results of other Group Subsidiaries. Therefore the Company decided to include the audited combined financial statements of Milkiland Corporation and Milkiland B.V. for the years ended 31 December 2007 and 2006. In 2007 results of all Ukrainian operations were consolidated under Milkiland Corporation, therefore the combined financial statements comprise financial information on Milkiland Corporation and Milkiland B.V. as a legal predecessor of the Issuer. Combined financial statements for the year ended 31 December 2007 in the Prospectus together with other information contained in the Prospectus should enable investors to make informed assessment whether to invest the Offer Shares.

The auditor's report on the Issuer's financial statement for the year ended 31 December 2008 includes qualification regarding cost of property plant and equipment indicated in the consolidated balance sheet, see *Auditor's Report on the financial statement for the year ended 31 December 2008,* p. F – 106.

Financial Statements included in the Prospectus are presented in EUR which is the accounting currency of the Group and of the Company. The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the Financial Statements which have been prepared based on the Group Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in tables in this Prospectus have also been rounded and accordingly the totals in these tables may not add up to 100 %.

Unless otherwise indicated, all references in this Prospectus to “US”, “USD” or “US $” are to the lawful currency of the United States and all references to “EUR” or “€” are to the lawful currency of the European Economic and Monetary Union, of which the Netherlands is a member. References to "UAH" or "Hryvnia" are to the lawful currency of Ukraine, whereas all references to "PLN" and "Polish zloty" are to the lawful currency of Poland, and all references to “RUR” are to the lawful currency of the Russian Federation.

Potential investors should consult their own professional advisers to gain an understanding of the financial information contained herein.

Market, Economic and Industry Data

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, state agencies, market and other organizations, researchers or analysts, publicly available information from other external sources as well as the Group’s knowledge of its sales and markets and assessments made by the Group’s management.

Certain statistical data and market, economic or industry information and forecasts relating to the world, Ukrainian and Russian dairy industry have been extracted and derived from reports and analysis produced by, *inter alia*, the following sources:

- information available on the website owned and operated by the Derzhkomstat (www.ukrstat.gov.ua);
- information available on the website owned and operated by the Rosstat (www.gks.ru);
- information available on the website owned and operated by the Belstat (www.belstat.gov.by);
- information, reports and analysis available on the website owned and operated by the United States Department of Agriculture, and its Foreign Agricultural Service (www.usda.gov);
- information available on the website of the Food and Agriculture Organization of the United Nations (www.fao.org);
- information published by the Food and Agriculture Policy Research Institute (FAPRI) (www.fapri.org);
- statistical data of the National Bank of Ukraine (www.bank.gov.ua);
- statistical data of the Central Bank of the Russian Federation;
- statistical data of the National Bank of Poland (www.nbp.gov.pl);
- information provided by Institute for Economic Research and Policy Consulting;
- information provided by Astarta – Tanit; and
- information provided by Amico.

While the Issuer has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Issuer or the Managers have independently verified that data. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as the Issuer is aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. The source for such third party information is cited whenever such information is used in this Prospectus.

Save where required by mandatory provisions of laws, the Issuer does not intend and does not undertake to update market, economic or industry data, statistics and forecasts contained in this Prospectus. Industry trends may change or significantly differ from the one projected in this Prospectus. Therefore investors should be aware that estimates made in this Prospectus may not be relied upon as indicatives of the Group’s future performances and actual trends.

In this Prospectus, the Issuer makes certain statements regarding the Group’s competitive position, growth and market leadership. The Issuer believes these statements to be true based on market data and industry statistics regarding the competitive position of certain of the Group's competitors. In presenting the overview of the Group's competitive position in the relevant markets, the Issuer also relied on management's assessments and analysis of such competitive position. In making such assessments and analysis the management has used market information collected by its own employees and advisors for such purpose, either available on the basis of public information or derivable from the same.

Documents Incorporated by Reference

No documents or content of any website are incorporated by reference in this Prospectus.

Documents Available for Inspection

The following documents will be available free of charge at the registered office of the Issuer during the normal business hours from the date of this Prospectus for a period of one year from the date when the Prospectus was made available to the public:

- Articles of Association of the Issuer,
- copies of the Financial Statements included in this Prospectus;
- copies of the corporate resolutions mentioned in the section General Information on the Issuer;

Moreover the following documents through the Issuer's web site www.milkiland.nl:

- this Prospectus together with its summery translated into Polish language;,
- the Articles of Association;
- copies of the documents required to be published on the Company's website pursuant to the Dutch Corporate Governance Code and the WSE Corporate Governance Rules; and
- statement of the Company's compliance or non-compliance with the WSE Corporate Governance Rules.

Forward-looking Statements

Some of the statements in some of the sections in this Prospectus include forward-looking statements which reflect the Issuer's current views with respect to future events and financial performance of its Group. Such forward-looking statements can be identified by the use of forward-looking terminology, including the terms such as "believes", "expects", "estimates", "anticipates", "intends", "plans", "may", "will", "should", "would", "could" or, in each case, their negatives or other variations or comparable terms. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. Such items in this Prospectus include, but are not limited to, statements under "*Risk Factors*", "*Business*", "*Industry Overview*" and "*Operating and Financial Review*"

By their nature, forward-looking statements involve known and unknown risk and uncertainty, and other factors that may cause the Group's actual results, performances and achievements to differ materially from any future results, performances, achievements or developments expressed in or implied by such forward-looking statements. The Management has based these forward-looking statements on numerous assumptions regarding the Group's present and future business strategies, current expectations and projections about future events and the environment in which the Group will operate in the future. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group, including, among other things:

- the Issuer's ability to develop and expand its business;
- the Issuer's ability to keep up with new technologies and expand into new markets;
- the Issuer's and the Group Subsidiaries ability to control their costs;

- the Issuer's future capital spending and availability of financial resources to finance capital spending;
- political and economic conditions in the countries in which the Group Subsidiaries operate;
- volatility in the world's securities markets; and
- the effects of regulation (including tax regulations) in the Netherlands and other countries in which the Group Subsidiaries operate.

The forward-looking statements speak only as at the date of this Prospectus. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, whether to reflect any new information, future events, any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statements is based, except as required by law, including under the Dutch Financial Supervision Act and the Polish Public Offerings Act.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place undue reliance on such forward-looking statements, which are based on facts known to the Issuer only as at the date of this Prospectus.

FINANCIAL STATEMENTS

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

Statement of Management's Responsibility

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

Management presents the accompanying condensed consolidated interim financial statements of Milkiland N.V. and its subsidiaries (the "Group") as at 30 June 2010 and for the six months ended 31 June 2010 (hereinafter referred to as "IFRS financial statements"), prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

Management is also responsible for:

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

The consolidated financial statements for the six months ended 30 June 2010 had been approved by the Board of Directors.

Director	**Director**	**Director**	**Director**
O.Yurkevych	**A.Yurkevych**	**V.Rekov**	**P.Yokhym**

Condensed consolidated interim balance sheet
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2010	31 December 2009	30 June 2009
ASSETS				
Current Assets				
Cash and cash equivalents	8	8,010	6,676	1,709
Trade and other receivables	9	21,840	21,787	24,573
Inventories		27,094	18,866	18,814
Current income tax assets		232	280	221
Other taxes receivable	10	23,392	8,744	7,305
		80,568	**56,353**	**52,622**
Non-Current Assets				
Goodwill		2,236	1,968	1,948
Property, plant and equipment	11	136,115	119,843	108,165
Other intangible assets		375	339	435
Deferred income tax assets		19,607	5,545	7,043
		158,333	**127,695**	**117,591**
TOTAL ASSETS		**238,901**	**184,048**	**170,213**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	12	20,390	13,576	21,832
Current income tax liabilities		272	16	119
Other taxes payable		1,569	822	978
Short-term loans and borrowings	13	44,148	30,986	66,707
Other current liabilities		-	-	-
		66,379	**45,400**	**89,636**
Non-Current Liabilities				
Loans and borrowings	13	59,524	61,949	27,460
Deferred income tax liability		43,274	25,993	25,208
Other non-current liabilities		521	496	367
		103,319	**88,438**	**53,035**
Total liabilities		**169,698**	**133,838**	**142,671**
Equity attributable to owners of the Company				
Share capital		2,500	2,500	2,500
Revaluation reserve		31,305	32,689	21,615
Currency translation reserve		(7,474)	(14,152)	(12,875)
Retained earnings		29,598	16,525	7,353
		55,929	**37,562**	**18,593**
Non-controlling interests		13,274	12,648	8,949
Total equity		**69,203**	**50,210**	**27,542**
TOTAL LIABILITIES AND EQUITY		**238,901**	**184,048**	**170,213**

Condensed consolidated interim statement of comprehensive income
(All amounts in euro thousands unless otherwise stated)

	Notes	Half year 2010	Half year 2009
Revenue	14	121,094	100,383
Cost of sales	15	(74,986)	(66,788)
Gross Profit		**46,108**	**33,595**
Government grants recognised as income		251	28
Selling and distribution expenses	16	(9,912)	(9,702)
Administration expenses	17	(13,135)	(13,917)
Other expenses, net	18	(5,960)	(1,293)
Operating Profit		**17,352**	**8,711**
Finance income		603	82
Finance expenses		(6,828)	(7,612)
Foreign exchange gain/(loss), net		1,216	218
Profit before tax		**12,343**	**1,399**
Income tax	19	(636)	(1,143)
Profit for the year		**11,707**	**256**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		8,220	(1,828)
Total comprehensive income/(loss) for the year		**19,927**	**(1,572)**
Profit attributable to:			
Owners of the Company		11,544	(19)
Non-controlling interests		163	276
		11,707	**256**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		18,204	(1,420)
Non-controlling interests		1,723	(151)
		19,927	**(1,572)**
Earnings per share, basic and dilluted (in euro cents)		46.18	(0.08)

Condensed consolidated interim statement of cash flows

(All amounts in euro thousands unless otherwise stated)

	Half year 2010	2009
Cash flow from operating activities:		
Profit before taxation	12,343	1,399
Adjustments for:		
Depreciation and amortization	4,492	3,884
Foreign exchange loss	(1,216)	(218)
Loss from revaluation and disposal of property, plant and equipment	82	(33)
Change in provision and write off of trade and other accounts receivable	(81)	278
Change in provision and write off of unrealised VAT	5,156	320
Finance costs, net	6,225	7,530
Gain realised from acquisitions	-	-
Operating cash flows before working capital changes	**27,001**	**13,160**
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	3,974	(485)
(Increase)/decrease inventories	(4,750)	(2,209)
(Increase) decrease other taxes receivable	(17,271)	(2,944)
(Decrease)/increase in other taxes payable	567	332
(Decrease)/increase in accounts payable	3,490	5,214
Cash used by operations:	**13,011**	**13,068**
Interest paid	(6,790)	(7,544)
Interest received	602	82
Income taxes paid	(449)	(1,040)
Net cash from operating activity	**6,374**	**4,566**
Investing activities:		
Proceeds from sale of property, plant and equipment	15	93
Acquisition of property, plant and equipment	(1,833)	(905)
Acquisition of subsidiaries and non-controlling interest, net of cash acquired	(696)	-
Net cash from investment activity	**(2,514)**	**(812)**
Financing activities:		
Other payments paid off	-	(569)
Proceeds from borrowings	37,087	12,657
Repayment of borrowings	(40,784)	(17,286)
Net cash from financial activity	**(3,697)**	**(5,198)**
Effect of exchange rate changes on cash and cash equivalents	1,171	(26)
	\	
Net decrease in cash	**1,334**	**(1,470)**
Cash at beginning of the period	6,676	3,181
Cash at the end of the period	**8,010**	**1,711**

Condensed consolidated interim statement of changes in equity

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	Share capital	Additional capital	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2009	2,500	-	(11,474)	22,758	6,230	**20,014**	**9,100**	**29,114**
Profit for the year	-	-	-	-	(19)	**(19)**	276	**257**
Other comprehensive loss	-	-	(1,401)	-	-	**(1,401)**	(428)	**(1,829)**
Total comprehensive income for the year	-	-	(1,401)	-	(19)	**(1,420)**	(152)	**(1,572)**
Realised revaluation reserve, net of income tax	-	-	-	(1,143)	1,143	-	-	-
Balance at 30 June 2009	**2,500**	**-**	**(12,875)**	**21,615**	**7,354**	**18,594**	**8,948**	**27,542**
Balance at 1 January 2010	**2,500**	**-**	**(14,152)**	**32,689**	**16,525**	**37,562**	**12,648**	**50,210**
Profit for the year	-	-	-	-	11,544	**11,544**	163	**11,707**
Other comprehensive income/(loss), net of tax effect	-	-	6,660	-	-	**6,660**	1,560	**8,220**
Total comprehensive income for the year	-	-	6,660	-	11,544	18,204	1,723	**19,927**
Acquisition of minority shares in Ostankino	-	-	18	217	(72)	163	(1,097)	**(934)**
Realised revaluation reserve, net of income tax	-	-	-	(1,601)	1,601	**-**	-	-
Balance at 30 June 2010	**2,500**	**-**	**(7,474)**	**31,305**	**29,598**	**55,929**	**13,274**	**69,203**

Notes to the condensed consolidated interim financial statements
(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the six months ended 30 June 2010 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2008 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

The Company is owned by 1, Inc. Cooperatief (holding 94% of shares) and R-Assets Cooperatief (holding 6% of shares). The Company is ultimately controlled by two individuals, who hold 94% and 6% voting rights respectively.

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

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

The Group was fully formed in 2008 through reorganization. In January 2008 the Company acquired 100% of corporate rights of Daughter Enterprise "Milkiland-Ukraine" (Ukraine) from Milkiland Corporation (Panama) for USD 1,980 thousand and 100% of corporate rights of Milkiland Corporation from Axel Management Inc. for EUR 2,410 thousand.

DE "Milkiland-Ukraine" holds the interest in other Ukrainian subsidiaries of the Group.

On January 2008 the Company purchased 75.23% of shares of JSC Ostankino Dairy Combine from third parties having paid USD 41,000 thousand.

At the date of this report LTD Lvivskyy Molochny Kombinat is under the procedures of liquidation. Taking into the consideration that the share of the company in this entity is 38%, a 100% reserve was counted for all it's net assets as well as for all investments of the Group in LTD Lvivsky Molochny Kombinat.

During the six months ended 30 June 2010 the Group acquired 2.41% of non-controlling interest in JSC Ostankino Dairy Combine (note 5).

1 The Group and its operations (continued)

For the period from 1 January 2010 to 30 June 2010 the Company had the following direct and indirect subsidiaries:

Name	Location	30 June 2010 Effective share of ownership	31 December 2009 Effective share of ownership
Milkiland Corporation	Panama	100%	100%
JSC Ostankino Dairy Combine	Russia, Moscow	77,64%	75,23%
DE Milkiland Ukraine	Ukraine	100%	100%
DE Aromat	Ukraine	100%	100%
PE Prometey	Ukraine	100%	100%
PE Ros	Ukraine	100%	100%
LLC Malka-trans	Ukraine	100%	100%
LLC Mirgorodsky Cheese Plant	Ukraine	100%	100%
JSC Kyiv Milk Plant #1	Ukraine	100%	100%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
CSC Gorodnia Milk Plant	Ukraine	91,37%	91,37%
LLC Agrosvit	Ukraine	76,0%	76,0%
LLC Molochni vyroby	Ukraine	100%	100%
DE Borznyanskiy Milk Plant	Ukraine	100%	100%
LLC Molprod	Ukraine	100%	100%
LLC Syr-Trading	Ukraine	100%	100%
LLC Ukrainian Milk House	Ukraine	100%	100%
LLC Molochny pan	Ukraine	100%	100%
LLC Magazyn Moloko	Ukraine	100%	100%
LLC Moloko Polissia	Ukraine	83,73%	70,0%
JSC Transportnyk	Ukraine	70,3%	70,3%
LLC Molgrup	Ukraine	100%	100%
LLC Stugna-Moloko	Ukraine	100%	100%
LLC Trubizh-Moloko	Ukraine	100%	100%
CJSC Iskra	Ukraine	68,06%	68,06%
DE Agrolight	Ukraine	100%	100%
DE Krasnosilsky Milk	Ukraine	100%	100%

2 Operating environment of the Group

Operating environment of the Group. Ukraine. The Ukrainian economy while being of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, insufficient level of liquidity in the capital markets, high inflation and the national currency illiquidity outside of Ukraine. The stability of the Ukrainian economy could be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to global market downturns and economic slowdowns. The recent global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within Ukraine, and significant devaluation of the Ukrainian hryvnia against major currencies. The Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the exchange rate and the banking sector. At the same time, the global economic situation may have a significant impact on Ukraine's balance of payments and currency stability. These factors could affect the Group's financial position, results of operations and business prospects.

These condensed consolidated interim financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position may be significant.

Operating environment of the Group. Russian Federation. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

Crisis in global markets along with some local factors resulted in high volatility in financial markets of Russian Federation. Decrease of liquidity, increase in volatility on fixed income, equity markets, and markets of derivatives directly led to investments losses and consequent decrease in scope of loans.

Notwithstanding the stability oriented policy undertaken by the government, credit markets within which the Company functions are hardly predictable and highly volatile. Increase in rates on interbank credits, global liquidity crisis in banking sector, tightening of lending conditions in Russian Federation are the evidences of negative dynamics of credit markets. These circumstances attach conditions to ability of the Company to attract new and refund existing loans on terms applicable to the same transactions in the course of its normal business activities.

Considering current circumstances, the management of the Company expects that economic uncertainty will continue over the next few years, and is not able to predict how crisis will develop and whether it will significantly affect current conditions within which the Company's functions.

Management is unable to estimate reliably the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

3 Summary of significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2009, except as described below.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement.

There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), 'consolidated and separate financial statements', at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if here is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. There has been no impact of IAS 27 (revised) on the current period, as none of the non-controlling interests have a deficit balance. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity; there have been no transactions with non-controlling interests.

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

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

- ‘Additional exemptions for first-time adopters’ (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.
- Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

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

IFRS 9, ‘Financial instruments’, issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group’s accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess IFRS 9’s full impact. The Group has not yet decided when to adopt IFRS 9.

- Revised IAS 24, ‘Related party disclosures’, issued in November 2009. It supersedes IAS 24, ‘Related party disclosures’, issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.
- ‘Classification of rights issues’ (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity’s existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.
- ‘Prepayments of a minimum funding requirement’ (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.
- IFRIC 19, ‘Extinguishing financial liabilities with equity instruments’. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.
- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1 January 2010.

(d) Foreign currency

Foreign operations

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

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

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

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

	US dollar	**UAH**	**RUR**
Average for six months ended 30 June 2010	1.3266	10.5844	39.9787
As at 30 June 2010	1.2271	9.7027	38.1863

	US dollar	UAH	RUR
As at 31 December 2009	1.4338	11.4489	43.3883
Average for six months ended 30 June 2009	1.4048	10.2383	44.2362
As at 30 June 2009	1.3334	10.7191	43.8191

Source: Management calculation based on statistics of European Central Bank, Ukrainian National Bank and Russian Central Bank

(e) Seasonality of operations

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

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

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

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

4 Significant accounting estimates and judgments

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

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

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

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

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

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

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

5 Business combinations

In June 2010 the Group acquired 1.78% and 0.63% of non-controlling interest in JSC Ostankino Dairy Combine from 2 minority shareholders for EUR 934 thousand. The result of the acquisition at the amount of EUR 163 thousand is recognised directly in equity.

Net assets of Ostankino Dairy Compine as at 30 June 2010	45,617
share in net assets acquired (2.41%)	1,097
Consideration paid	(934)
Access of share in net assets acquired over consideration paid	**163**

6 Segment information

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

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

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

- *Whole-milk and other milk products*. This segment is involved in production and distribution of whole-milk products, butter and dry milk products;
- *Cheese.* This segment is involved in production and distribution of cheese.

Other segments include production and distribution of ice-cream and other products, which - although only contributing a relatively small amount of revenue to the Group (4%), are monitored by the strategic chief operating decision-maker as well. Those results are summarised in other segments.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event. As information on segment assets are not reported to the Board of Directors, this is not disclosed in these financial statements.

The segment information for the six months ended 30 June 2010 is as follows:

	Russia			Ukraine			
	Cheese	Whole-milk products	All other	Cheese	Whole-milk products	All other	Total
Total segment revenue	11,374	38,098	676	53,792	23,438	4,568	**131,946**
Inter-segment revenue	(10,852)	-	-	-	-	-	**(10,852)**
Revenue from external customers	**522**	**38,098**	**676**	**53,792**	**23,438**	**4,568**	**121,094**
Adjusted EBITDA	**298**	**2,315**	**31**	**14,986**	**3,015**	**1,358**	**22,003**
Depreciation and amortisation	-	1,642	51	1,707	1,008	84	**4,492**

The segment information for the six months ended 30 June 2009 is as follows:

	Russia			Ukraine			
	Cheese	Whole-milk products	All other	Cheese	Whole-milk products	All other	Total
Total segment revenue	5,637	39,156	139	38,966	18,868	2,554	**105,319**
Inter-segment revenue	(4,936)	-	-		-	-	**(4,936)**
Revenue from external customers	**701**	**39,156**	**139**	**38,966**	**18,868**	**2,554**	**100,383**
Adjusted EBITDA	**453**	**3,934**	**13**	**6,968**	**1,369**	**551**	**13,288**
Depreciation and amortisation	-	1,014	31	1,732	1,022	85	**3,884**

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

A reconciliation of adjusted EBITDA to profit before tax:

	Half-year	
	2010	2009
Adjusted EBITDA	**22,003**	**13,288**
Other segments EBITDA	(78)	(30)
Total segments	**21,925**	**13,259**
Depreciation and amortisation	(4,492)	(3,884)
Non-reccuring consulting and legal fees	-	(697)
Loss/(gain) from disposal and impairment of non-current assets	(82)	33
Finance costs - net	(6,225)	(7,530)
Foreign exchange loss	1,216	218
Profit before tax	12,343	1,399

7 Balances and transactions with related parties

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

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

Entities under common control:	2010	2009
Sales revenue	1,237	1,894
Finance expenses on other borrowings	1,202	-
Finance income on trade and other accounts receivable	-	82

Ultimate shareholders:	2010	2009
Finance expenses on other borrowings	92	106

The outstanding balances due from/(to) related parties as of 30 June 2010, 31 December 2009 and 30 June 2009 were as follows:

Entities under common control:	30 June 2010	31 December 2009	30 June 2009
Trade accounts receivable	258	756	560
Advances paid	359	298	-
Other accounts receivable	165	1,050	4,253
Non-current loans and borrowings from non-financial institutions	(11,009)	(4,791)	-
Interest payable	(65)	-	-

Ultimate shareholders:	30 June 2010	31 December 2009	30 June 2009
Current loans from non-financial institutions	1,218	1,291	-

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

Key management compensation

Key management includes Vice President, General Director, Finance Director, Production Director, Commercial Director, Sales Director, Director of Raw Materials Department. The short-term employee benefits paid or payable to key management for employee services is EUR 302 thousand (2009: EUR 320 thousand).

8 Cash and cash equivalents

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

	30 June 2010	31 December 2009	30 June 2009
Short term deposits	4,923	3,736	-
Cash in bank and cash on hand	3,087	2,940	1,709
	8,010	**6,676**	**1,709**

As at 30 June 2010, short term deposits have been pledged as collateral for short-term bank loans (Note 15).

9 Trade and other accounts receivable

	30 June 2010	31 December 2009	30 June 2009
Trade accounts receivable	19,425	17,945	18,532
Allowance for doubtful debts	(2,397)	(2,443)	(2,764)
Total trade accounts receivable	**17,028**	**15,502**	**15,767**
Other financial receivables	249	515	-
Total financial assets within trade and other receivables	**17,277**	**16,017**	**15,767**

Advances issued	3,309	2,111	4,094
Advances issued for finance leases	-	-	-
Other receivables	5,070	6,601	9,429
Allowance for doubtful debts	(3,816)	(2,942)	(4,717)
	21,840	**21,787**	**24,573**

The Group does not hold any collateral as security.

10 Other taxes receivable

	30 June 2010	31 December 2009	30 June 2009
VAT recoverable	23,049	8,551	7,068
Payroll related taxes	118	-	37
Other prepaid taxes	225	193	200
	23,392	**8,744**	**7,305**

During 6 months ended 30 June 2010 the Group accumulated a significant amount of input VAT arising from 0% VAT export sales.

Refund of VAT by the state is a constant problem of companies operating in Ukraine. One of the main problems the companies face with VAT refunds is the delay and complexity of inspections. Currently, the VAT refund issue is partially resolved through the mechanism of issuance of VAT bonds. Tax payors, who had declared a VAT refund before 1 May 2010 that was confirmed by tax inspections and not refunded may apply to exchange the VAT refund for VAT bonds. According to the applicable legislation, taxpayors have a possibility to get VAT refund bonds starting from 1 August 2010.

During the period from 1 July until signing the financial statements the Group received the compensation of VAT at the total amount of EUR 13,347 thousand partly in the form of VAT refund bonds and partly in cash (note 22). The Group sold the VAT refund bonds to third parties with a discount of 18.3%. VAT receivable as at 30 June 2010 is shown net of provision at the amount of EUR 8,821 thousand (31 December 2009: EUR 2,761 thousand), which is estimated at 30% of VAT refund claimed from the Ukrainian Government. The provision for VAT is created due to complexity of reimbursement of VAT and is estimated based on previous statistics of VAT recoverability.

11 Property, plant and equipment and intangible assets

During six months ended 30 June 2010 the Group acquired assets with a cost of EUR 1,640 thousand (2009: EUR 905 thousand), which is mainly production equipment.

12 Trade and other payables

	30 June 2010	31 December 2009	30 June 2009
Trade payables	13,627	9,715	13,537
Wages and salaries payable	1,594	1,066	1,610
Accounts payable for fixed assets	342	275	0
Accrual for audit fees and consulting services	38	86	121
Interest payable	429	333	635
Total financial liabilities withing trade and other payable	**16,029**	**11,475**	**15,902**
Advances received	768	780	1,771
Other accounts payable	2,728	571	3,627
Accruals for employees' unused vacations	865	750	531
	20,390	**13,576**	**21,832**

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

13 Interest bearing loans and borrowings

	30 June 2010	31 December 2009	30 June 2009
Current			
Interest bearing loans due to banks	40,034	29,695	65,513
Loans from non-financial institutions	2,524	1,291	-
Bank overdrafts	1,440	-	1,194
Finance leases	150	-	-
Total current borrowings	**44,148**	**30,986**	**66,707**
Non-current			
Interest bearing loans due to banks	36,725	52,747	23,092
Loans from non-financial institutions	22,499	9,202	4,368
Finance leases	300	-	-
Total non-current borrowings	**59,524**	**61,949**	**27,460**
Total borrowings	**103,672**	**92,935**	**94,167**

Movement in loans and borrowings during the six months ended 30 June was as follows:

	2010	2009
Opening balance	92,935	98515
Obtained new loans and borrowings	37,087	12,657
Repaid loans and borrowings	(40,784)	(17,286)
Forex exchange gain	14,434	281
Closing balance	**103,672**	**94,167**

14 Revenue

	2010	2009
Cheese	56,589	39,666
Whole-milk products	47,866	46,812
Butter	7,147	6,068
Dry milk products	6,523	5,143
Ice-cream	817	706
Other products	2,152	1,988
Total	**121,094**	**100,383**

Regional sales during the six months ended 30 June was as follows:

	2010		2009	
Country	**net sales**	**% of sales**	**net sales**	**% of sales**
Russia	73,472	61%	64,092	64%
Ukraine domestic	42,556	35%	31,618	31%
Kazakhstan	2,710	2%	1,950	2%

European Union	920	1%	477	0%
Singapore	721	1%	-	0%
Moldova	-	0%	119	0%
Other	715	1%	2,127	2%
Total	**121,094**	**100%**	**100,383**	**100%**

15 Cost of sales

	2010	2009
Raw materials	51,302	44,203
Other materials	4,562	5,039
Wages and salaries	3,970	3,969
Depreciation	3,885	3,199
Transportation costs	3,767	2,834
Gas	2,889	3,029
Electricity	1,871	1,895
Social insurance contributions	1,284	1,273
Repairs of property, plant and equipment	749	608
Water	274	339
Other	433	400
	74,986	**66,788**

16 Selling expenses

	2010	2009
Transportation costs	4,107	4,814
Security and other services	1,090	1,215
Marketing and advertising	1,372	926
Wages and salaries	2,199	1,869
Social insurance contributions	585	498
Licence fees	118	62
Rental costs	93	64
Depreciation and amortisation	60	33
Other	288	221
	9,912	**9,702**

17 Administrative expenses

	2010	2009
Wages and salaries	4,488	4,339
Social insurance contributions	936	977
Representative charges	971	1,807
Taxes and other charges	653	592
Other utilities	1,455	1,285
Consulting fees	490	967
Bank charges	1,000	787
Repairs and maintanance	763	672
Depreciation and amortisation	547	652
Security and other services	427	524
Transportation costs	417	390
Property insuarance	254	268
Licence fees	226	178
Rental costs	153	154
Communication	106	120
Office supplies	44	39
Other	205	166
Total	**13,135**	**13,917**

18 Other income and expenses

	2010	2009
Other operating income	457	226
Gain/(loss) from disposal of non-current assets	(82)	33
Penalties	(61)	(56)
Loss from write off of inventories	(269)	(124)
Change in provision and write off of trade and other accounts receivable	81	(278)
Change in provision and write off of VAT receivable	(5,156)	(320)
Other expenses	(930)	(774)
	(5,960)	**(1,293)**

19 Income tax

	2010	2009
Income tax expense – current	(749)	(750)
Deferred tax (expense) benefit – origination and reversal of temporary differences	113	(393)
Income tax (expense) benefit	**(636)**	**(1,143)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%), Russian profit was levied at the rate of 20% (2009: 20%) The profit of one Ukrainian company of the Group (2009: two companies) was subject to single agricultural tax, which is estimated based on the land area and normative valuation of the land. In 2010 the Group has reflected the single tax at the amount of EUR 2 thousand (2009: EUR 2 thousand) in administrative expenses. In 2010 the tax rate for Panama operations was 0% (2009: 0%) on worldwide income.

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

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

As at 30 June 2010 based on the evaluation the Company determined the provision at the amount of EUR 3,805 thousand (31 December 2009: EUR 3,926 thousand).

20 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

Ukraine currently has a number of laws related to various taxes and levies imposed by both state and local authorities. Laws relating to these taxes are subject to frequent changes, and regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist within various bodies, thus creating uncertainties and areas of conflict. These facts create a tax risk in Ukraine substantially more significant than typically found in countries with a more developed tax system.

The group's management believes that tax liabilities are provided sufficiently based on the tax legislation interpretation, official interpretations and court decisions. However, interpretations of corresponding inspection bodies may differ from the Group's position and the effect on the financial statements may be significant if these bodies are able to dispute these interpretations. As a result additional taxes, fines and penalties may be imposed. No provisions were charged as to contingent tax liabilities in these financial statements.

Insurance policies

The Group insures all significant property. As at 30 June 2010, most of the Group's property is insured.

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

As at 30 June 2010 the Company insured its property, plant and equipment for a total amount of EUR 89,298 thousand (as at 31 December 2009: EUR 87,012 thousand).

The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Acquisition of minority interest

In May 2010, the Group entered into a share purchase agreement with Catapel Ltd. According to the agreement the Group will acquire (in three tranches) 484,109 shares (approximately 17.8% of share capital) in one of the Group's major subsidiaries, JSC Ostankino Dairy Combine. The last tranche of payment shall be made in March 2011. As at 30 June 2010, the Group has acquired 1.78% of shares. The outstanding 16.02% will cost the Group EUR 7,001 thousand (equivalent of RUR 267,355 thousand).

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland N.V. is obliged to send a public offer about acquisition of other 172,588 ordinary registered shares (6.35% of share capital) to all other minority shareholders of Ostankino Dairy Combine. Should all the minority shareholders exercise their sale option, the Group will be obliged to pay the total amount of RUR 83,981 thousand, which comprises EUR 2,199 thousand at 30 June 2010. Management is planning to send a public offer by the end of 2010.

Guarantees for third parties

As at 30 June 2010 the Group had a guarantee of EUR 5,297 thousand (31 December 2009: EUR 5,440 thousand) granted for the benefit of third party under the credit line provided by OTP bank.

21 Earnings per share

	2010	2009
Numerator		
Earnings used in basic and diluted EPS	11,544	(19)
Denominator, in thousand		
Weighted average number of shares used in basic and dilluted EPS	25,000	25,000

22 Subsequent events

On 3 September 2010 the Group has received 5-year VAT bonds issued by the Ukrainian Government at the amount of EUR 9,351 thousand (UAH 95,201 thousand) in compensation for the same amount of VAT receivable. VAT bonds are subject to interest rate of 5.5% per annum, paid twice a year. The principal amount is settled in equal semi-annual installments within 5 years. The Group sold those bonds to third parties with a discount of 18.3%.

On 31 August 2010 the Group has received EUR 3,996 thousand (UAH 39,969 thousand) in the form of compensation for VAT receivable. This amount should be used for the purchase of grain from the state agrarian fund. The grain will be sold to a third party for EUR 4,009 thousand.

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

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Bijster 49-55, 4817 HZ Breda
Nederland

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

REVIEW REPORT

Introduction
We have reviewed the accompanying condensed consolidated interim financial information for the sixth months ended June 30, 2010 of Milkiland N.V., Amsterdam, which comprises the balance sheet as at June 30, 2010, the profit and loss account, statement of changes in equity and cash flow statement and the selected explanatory notes for the sixth month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope
We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2010 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Breda, September 20, 2010

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

L.C. Augustijn RA

Milkiland N.V.

Consolidated Financial Statements

For year ended 31 December 2009

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

Management presents the accompanying consolidated financial statements of Milkiland N.V. and its subsidiaries (the "Group") as at 31 December 2009 and for the year ended 31 December 2009 (hereinafter referred to as "IFRS financial statements"), prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2009 had been approved by the Board of Directors.

Director	**Director**	**Director**	**Director**
O.Yurkevych	**A.Yurkevych**	**V.Rekov**	**P.Yokhym**

Consolidated Balance Sheet
(All amounts in euro thousands unless otherwise stated)

	Notes	2009	2008 (restated)
ASSETS			
Current Assets			
Cash and cash equivalents	7	6,676	3,181
Trade and other receivables	8	21,787	27,210
Inventories	9	18,866	16,965
Current income tax assets		280	60
Other taxes receivable	10	8,744	4,856
		56,353	**52,272**
Non-Current Assets			
Goodwill	12	1,968	2,060
Property, plant and equipment	11	119,843	111,974
Other intangible assets	11	339	341
Deferred income tax assets	25	5,545	6,989
		127,695	**121,364**
TOTAL ASSETS		**184,048**	**173,636**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	13,576	19,161
Current income tax liabilities		16	340
Other taxes payable	14	822	673
Short-term loans and borrowings	15	30,986	68,072
Short-term lease payable	16	-	607
		45,400	**88,853**
Non-Current Liabilities			
Loans and borrowings	15	61,949	30,443
Deferred income tax liability	25	25,993	24,837
Deferred income	17	496	389
		88,438	**55,669**
Total liabilities		**133,838**	**144,522**
Equity attributable to owners of the Company			
Share capital	18	2,500	2,500
Revaluation reserve		32,689	22,758
Currency translation reserve		(14,152)	(11,474)
Retained earnings		16,525	6,230
		37,562	**20,014**
Non-controlling interests		12,648	9,100
Total equity		**50,210**	**29,114**
TOTAL LIABILITIES AND EQUITY		**184,048**	**173,636**

Consolidated statement of comprehensive income
(All amounts in EUR thousands unless otherwise stated)

	Notes	2009	2008 (restated)
Revenue	19	200,008	270,417
Cost of sales	20	(129,975)	(187,531)
Gross Profit		**70,033**	**82,886**
Government grants recognised as income	17	339	389
Selling and distribution expenses	21	(18,687)	(20,309)
Administration expenses	22	(26,250)	(39,741)
Other expenses, net	23	(3,233)	(5,856)
Operating Profit		**22,202**	**17,369**
Finance income	24	853	31
Finance costs	24	(14,186)	(15,053)
Foreign exchange loss, net		(948)	(15,856)
Non-operating income/(expenses), net		-	-
Profit before tax		**7,921**	**(13,509)**
Income tax	25	245	(2,489)
Profit for the year		**8,166**	**(15,998)**
Gain realised from acquisitions		-	23,366
Net profit for the year		**8,166**	**7,368**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		(2,982)	(13,168)
Gains on revaluation of properties		20,433	32,776
Tax effect on revaluation of properties		(4,522)	(10,018)
Total comprehensive income		**21,096**	**16,958**
Profit attributable to:			
Owners of the Company		8,109	6,227
Non-controlling interests		57	1,141
		8,166	**7,368**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		18,216	17,511
Non-controlling interests		2,880	(553)
		21,096	**16,958**
Earnings per share, basic and dilluted (in euro cents)	30	**32.44**	**43.93**

Consolidated statement of cash flows
(All amounts in EUR thousands unless otherwise stated)

	2009	2008
Cash flow from operating activities:		
Profit before taxation	7,921	(13,509)
Adjustments for:		
Depreciation and amortization	7,665	9,665
Foreign exchange loss	948	15,856
Loss from revaluation and disposal of property, plant and equipment	1,717	1,491
Change in provision for bad and doubtful debts	(426)	(1,058)
Finance costs, net	13,333	15,031
Operating cash flows before working capital changes	**31,160**	**27,476**
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(2,824)	(2,014)
(Increase)/decrease inventories	(2,910)	3,080
(Increase) decrease other taxes receivable	(4,262)	1,245
(Decrease)/increase in other taxes payable	(61)	(540)
(Decrease)/increase in accounts payable	3,002	(10,041)
Cash used by operations:	**24,105**	**19,206**
Interest paid	(14,435)	(13,587)
Interest received	429	-
Income taxes paid	(1,375)	(2,127)
Net cash from operating activity	**8,724**	**3,492**
Investing activities:		
Proceeds from sale of property, plant and equipment	145	102
Acquisition of property, plant and equipment	(2,190)	(5,835)
Acquisition of subsidiaries, net of cash acquired	-	(27,048)
Net cash from investment activity	**(2,045)**	**(32,781)**
Financing activities:		
Other payments paid off	(570)	(2,808)
Proceeds from borrowings	20,277	56,725
Repayment of borrowings	(22,625)	(45,855)
Net cash from financial activity	**(2,918)**	**8,062**
Effect of exchange rate changes on cash and cash equivalents	(266)	(763)
	\	
Net increase in cash	**3,495**	**(21,990)**
Cash at beginning of the period	3,181	25,171
Cash at the end of the period	**6,676**	**3,181**

Consolidated statement of changes in equity
(All amounts in EUR thousands unless otherwise stated)

	Attributable to equity holders of the company							
	Share capital	**Share premium reserve**	**Foreign Currency translation reserve**	**Revaluation reserve**	**Retained earnings**	**Total stockholders' equity**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2008	18	2,482	-	-	3	**2,503**	**-**	**2,503**
Issue of common shares	2,482	(2,482)	-	-	-	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**(11,474)**	**22,758**	**6,227**	**17,511**	**(553)**	**16,958**
Other movements	-	-	-	-	-	**-**	9,653	**9,653**
Balance at 31 December 2008	**2,500**	**-**	**(11,474)**	**22,758**	**6,230**	**20,014**	**9,100**	**29,114**
Total comprehensive income for the year	**-**	**-**	**(2,678)**	**12,785**	**8,109**	**18,216**	**2,880**	**21,096**
Realised revaluation reserve, net of income tax	-	-	-	(2,186)	2,186	**-**	-	**-**
Other movements	-	-	-	(668)	-	**(668)**	**668**	**-**
Balance at 31 December 2009	**2,500**	**-**	**(14,152)**	**32,689**	**16,525**	**37,562**	**12,648**	**50,210**

Notes to the consolidated financial statements
(All amounts in euro thousands unless otherwise stated)

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 2009 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2008 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

The Company is owned by 1, Inc. Cooperatief (holding 94 % of shares) and R-Assets Cooperatief (holding 6 % of shares). The Company is ultimately controlled by two individuals, who hold 94 % and 6 % voting rights respectively.

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

Milkiland is a dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine and in Russia, able to process about 1,400 thousand tones of milk per year. The factories purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

The Group was fully formed in 2008 through reorganization. In January 2008 the Company acquired 100 % of corporate rights of Daughter Enterprise "Milkiland-Ukraine" (Ukraine) from Milkiland Corporation (Panama) for USD 1,980 thousand and 100 % of corporate rights of Milkiland Corporation from Axel Management Inc. for EUR 2,410 thousand.

DE "Milkiland-Ukraine" holds the interest in other Ukrainian subsidiaries of the Group.

On January 2008 the Company purchased 75.23 % of shares of JSC Ostankinsky Dairy Combine from third parties having paid USD 41,000 thousand.

At the date of this report LTD Lvivskyy Molochny Kombinat is under the procedures of liquidation. Taking into the consideration that the share of the company in this entity is 38 %, a 100 % reserve was counted for all it's net assets as well as for all investments of the Company in LTD Lvivsky Molochny Kombinat.

For the period from 1 January 2009 to 31 December 2009 the Company had the following direct and indirect subsidiaries:

Name	Location	Effective share in equity
Milkiland Corporation	Panama	100 %
JSC Ostankino Dairy Combine	Russia, Moscow	75,23 %
DE Milkiland Ukraine	Ukraine	100 %
DE Aromat	Ukraine	100 %
PE Prometey	Ukraine	100 %
PE Ros	Ukraine	100 %
LLC Malka-trans	Ukraine	100 %
LLC Mirgorodsky Cheese Plant	Ukraine	100 %
JSC Kyiv Milk Plant #1	Ukraine	100 %
JSC Chernigiv Milk Plant	Ukraine	76,0 %
CSC Gorodnia Milk Plant	Ukraine	91,37 %
LLC Agrosvit	Ukraine	76,0 %
LLC Molochni vyroby	Ukraine	100 %
DE Borznyanskiy Milk Plant	Ukraine	100 %
LLC Molprod	Ukraine	100 %
LLC Syr-Trading	Ukraine	100 %
LLC Ukrainian Milk House	Ukraine	100 %
LLC Molochny pan	Ukraine	100 %
LLC Magazyn Moloko	Ukraine	100 %

LLC Moloko Polissia	Ukraine	70,0 %
JSC Transportnyk	Ukraine	70,3 %
LLC Molgrup	Ukraine	100 %
LLC Stugna-Moloko	Ukraine	100 %
LLC Trubizh-Moloko	Ukraine	100 %
CJSC Iskra	Ukraine	68,06 %
DE Agrolight	Ukraine	100 %
DE Krasnosilsky Milk	Ukraine	100 %

During 2009 the Company disposed off LLC Moldom and LTD MKP Revers after the transfer of all major assets and liabilities. The financial result from disposal of the companies is included in other income and expenses.

In 2009 the average number of employees of the Group was 6,378 thousand people (2008: 5,894 thousand people).

2 Operating environment of the Group

Operating environment of the Group. Ukraine. The Ukrainian economy is vulnerable to market downturns and slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and a significant devaluation of the national currency against other major currencies. In the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilising measures aimed at providing liquidity and supporting debt re-financing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost to the Group.

Ukraine is experiencing political and economic changes that effect and still have an impact on entities operating in Ukraine. Consequently, economic activity in Ukraine is associated with risks that are not typical in other market economies. The accompanying conoslidated financial statements disclose management’s estimation of potential impact of the economic situation on the Group’s activity and its financial position. Future operating conditions may differ from the management’s estimates.

Operating environment of the Group. Russian Federation. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

Crisis in global markets along with some local factors resulted in high volatility in financial markets of Russian Federation. Decrease of liquidity, increase in volatility on fixed income, equity markets, and markets of derivatives directly led to investments losses and consequent decrease in scope of loans.

Notwithstanding the stability oriented policy undertaken by the government, credit markets within which the Company functions are hardly predictable and highly volatile. Increase in rates on interbank credits, global liquidity crisis in banking sector, tightening of lending conditions in Russian Federation are the evidences of negative dynamics of credit markets. These circumstances attach conditions to ability of the Company to attract new and refund existing loans on terms applicable to the same transactions in the course of its normal business activities.

Considering current circumstances, the management of the Company expects that economic uncertainty will continue over the next few years, and is not able to predict how crisis will develop and whether it will significantly affect current conditions within which the Company’s functions.

Management is unable to estimate reliably the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company’s business in the current circumstances.

3 Summary of significant accounting policies

Basis of presentation. These conoslidated 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.*

Application of new IFRS

The Group has adopted the following new and amended standards effective 1 January 2009:

- IFRS 7 'Financial instruments – Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.
- IFRS 8, 'Operating segments'. It replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Comparative information has been re-presented so that it also is in conformity with the revised standard.
- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.
- IAS 23 (revised), 'Borrowing costs'. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for use or sale as part of the cost of that asset. The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognised all borrowing costs as an expense immediately however, in accordance with the transition provisions of the standard, comparative figures have not been restated.

The following new standards, interpretations and amendments, also effective for the first time from 1 January 2009, have not had a material effect on the financial statements:

IAS 16 (Amended) "Property, plant and equipment"

IAS 20 (Amended) "Accounting for Government Grants and Disclosure of Government Assistance"

IAS 27 (Revised) " Consolidated and Separate Financial Statements"

IAS 28 (Amended) "Investments in Associates"

IAS 31 (Amended) "Interest in Joint Ventures"

IAS 32 (Amended) "Financial Instruments: Presentation"

IAS 36 (Amended) "Impairment of Assets"

IAS 38 (Amended) "Intangible Assets"

IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"

IAS 40 (Amended) "Investment Property"

IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Statements"

IFRS 2 (Amended) "Share-based Payment"

IFRS 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations"

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 17 "Distributions of Non-cash Assets to Owners"

IFRIC 18 "Transfers of Assets from Customers"

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, and which the Company has not early adopted:

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

The following interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 but are not expected to have a significant impact on the financial statements:

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'

IAS 1 (amendment), 'Presentation of financial statements'

IAS 38 (amendment), 'Intangible Assets'

Unless otherwise described above, the published standards and interpretations are not expected to significantly affect the Group's financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventory is accounted for at FIFO method.

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

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

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

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

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

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

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

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

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

- financial assets available for sale.

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

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

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

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

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

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

Investments available-for-sale

Available-for-sale financial assets are non - derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

When the investment is retired, the cumulative gain or loss recorded earlier in other comprehensive income is recognized in the profit or loss. Interest gained or paid on investments is reported in consolidated financial statements as interest profit or expense using the effective interest rate. Dividends gained on investments are recognized in the statement of comprehensive income as `Dividends received` at the moment the Group gains the right for them.

Investments held-to-maturity

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

Fair value

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

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

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

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

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

Non-derivative financial liabilities

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

As at 31 December 2009 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognized at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

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

Impairment of Financial Assets

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

Assets reported at amortized cost

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

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

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

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

Financial investments available for sale

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

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

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

Revenue and expense recognition. Revenue is recognized when the title of the product passes to the customer and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

The cost of products sold is recognized at the same time as the corresponding revenue.

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

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

Income taxes

Current tax

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

Deferred tax

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

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

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the-transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

Foreign currency

Foreign currency transactions

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

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

Foreign operations

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

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

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

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

	US dollar	UAH	RUR
Average for year ended 31 December 2008	1.4767	7.7080	36.4364
As at 31 December 2008	1.4097	10.8555	41.4411
Average for year ended 31 December 2009	1.3949	10.8679	44.1299
As at 31 December 2009	1.4338	11.4489	43.3883

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

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

4 Significant accounting estimates and judgements

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

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

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

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

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

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

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

5 Segment information

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

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

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

- *Whole-milk and other milk products*. This segment is involved in production and distribution of whole-milk products, butter and dry milk products;
- *Cheese.* This segment is involved in production and distribution of cheese.

Other segments include production and distribution of ice-cream and other products, which - although only contributing a relatively small amount of revenue to the Group (3 % each (2008: 4 %)), are monitored by the strategic chief operating decision-maker as well. Those results are summarised in other segments.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event. As information on segment assets are not reported to the Board of Directors, this is not disclosed in these financial statements.

The segment information for the year ended 31 December 2009 is as follows:

	Russia			Ukraine			
	Cheese	**Whole-milk products**	**All other**	**Cheese**	**Whole-milk products**	**All other**	**Total**
Total segment revenue	14,540	73,119	86	84,984	35,793	3,940	**212,463**
Inter-segment revenue	(12,455)	-	-	-	-	-	**(12,455)**
Revenue from external customers	**2,085**	**73,119**	**86**	**84,984**	**35,793**	**3,940**	**200,008**
Adjusted EBITDA	**103**	**5,615**	**77**	**21,850**	**3,895**	**1,009**	**32,547**
Depreciation and amortisation	-	2,286	23	2,785	1,982	589	**7,665**

The segment information for the year ended 31 December 2008 is as follows:

	Russia			Ukraine			
	Cheese	**Whole-milk products**	**All other**	**Cheese**	**Whole-milk products**	**All other**	**Total**
Total segment revenue	4,353	98,255	458	85,412	81,132	6,691	**276,301**
Inter-segment revenue	(3,918)	-	-	(1,966)	-	-	**(5,884)**
Revenue from external customers	**435**	**98,255**	**458**	**83,446**	**81,132**	**6,691**	**270,417**
Adjusted EBITDA	**(142)**	**9,733**	**34**	**14,577**	**4,393**	**1,060**	**29,655**
Depreciation and amortisation	-	2,610	81	3,657	2,558	760	**9,665**

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

A reconcilliation of adjusted EBITDA to profit before tax:

	2009	2008
Adjusted EBITDA	**32,547**	**29,655**
Other segments EBITDA	(87)	(65)
Total segments	**32,460**	**29,590**
Depreciation and amortisation	(7,665)	(9,665)
Non-reccuring consulting and legal fees	(1,003)	(361)
Loss/(gain) from disposal and impairment of non-current assets	(1,587)	(2,195)
Finance costs - net	(13,333)	(15,022)
Foreign exchange loss	(947)	(15,856)
Profit before tax	**7,924**	**(13,509)**

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:	2009	2008
Sales revenue	3,207	3,979
Finance income on trade and other accounts receivable	423	-
Finance expenses on other borrowings	(32)	-

Ultimate shareholders:	2009	2008
Finance expenses on other borrowings	(202)	(12)

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

Entities under common control:	2009	2008
Trade accounts receivable	756	278
Advances paid	298	-
Other accounts receivable	1,050	-
Non-current loans and borrowings	(4,791)	-

Ultimate shareholders:	2009	2008
Current Loans from non-financial institutions (current)	(1,291)	(1,632)

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

Key management compensation

Key management includes Vice President, General Director, Finance Director, Production Director, Commercial Director, Sales Director, Director of Raw Materials Department. The short-term employee benefits paid or payable to key management for employee services is EUR 641 thousand (2008: EUR 542 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.

	2009	2008
Short term deposits	3,736	-

Cash in bank	2,835	2,754
Cash on hand	105	427
	6,676	**3,181**

As at 31 December 2009, short term deposits have been pledged as collateral for short-term bank loans (Note 15).

An analysis of the Group's cash and cash equivalents by currency is provided in note 29.

8 Trade and other accounts receivable

	2009	2008
Trade accounts receivable	17,945	19,054
Allowance for doubtful debts	(2,443)	(4,074)
Total trade accounts receivable	**15,502**	**14,980**
Other financial receivables	515	-
Total financial assets within trade and other receivables	**16,017**	**14,980**
Advances issued	2,111	6,462
Advances issued for finance leases	-	672
Other receivables	6,601	6,899
Allowance for doubtful debts	(2,942)	(1,803)
	21,787	**27,210**

As at 31 December 2009 trade receivables of EUR 12,824 thousand (2008: EUR 10,977 thousand) were past due, but not impaired. They relate to the customers of no default history. Based on historic information, the company creates the allowance for doubtful debts against trade receivables past due.

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

	2009		**2008**	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Current and not impaired				
Retailors	2,122	21	3,347	-
Dealers and wholesalors	556	-	656	-
Interest receivable from Bank of Moscow	-	494		
Total current and not impaired	**2,678**	**515**	**4,003**	**-**
Past due but not impaired				
- less than 30 days overdue	11,017	-	9,049	-
- 30 to 60 days overdue	32	-	52	-
Total past due but not impaired	**11,049**	**-**	**9,101**	**-**
Individually determined to be impaired (gross)				
- less than 30 days overdue	108	-	99	-
- 30 to 60 days overdue	1,828	-	1,921	-
- 60 to 90 days overdue	336	-	870	-
- 90 to 360 days overdue	868	-	1,122	-
- over 360 days overdue	1,079	-	1,938	-
Total individually impaired	**4,219**	**-**	**5,950**	**-**
Less impairment provision	(2,444)	-	(4,074)	-

Total	**15,502**	**515**	**14,980**	**-**

The carrying amounts of the Company'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.

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 29.

The Group does not hold any collateral as security.

9 Inventories

	2009	2008
Raw and other materials	14,717	11,968
Finished goods and work in progress	4,149	4,997
	18,866	**16,965**

At 31 December 2009 and 31 December 2008 bank borrowings are not secured on inventories (2008: bank borrowings were secured on inventories for the value of EUR 1,403 thousand) (note 15).

10 Other taxes receivable

	2009	2008
VAT recoverable	8,702	4,426
Other prepaid taxes	193	684
Less allowance for irrecoverable VAT	(151)	(254)
	8,744	**4,856**

11 Property, plant and equipment and intangible assets

	Land and buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
<u>Cost</u>						
At 1 January 2008	-	-	-	-	-	-
Acquired through business combination	77,259	38,746	9,517	10,392	319	136,234
Additions	21	6,502	1,318	220	184	8,245
Disposals	-	(2,039)	(83)	-	2	(2,120)
Transfers	576	2,626	-	(3,202)	-	-
Revaluations	24,385	1,009	(76)	466	-	25,784
Translation to presentation currency	(17,579)	(10,056)	(3,254)	(1,512)	(33)	(32,435)
At 31 December 2008	**84,662**	**36,788**	**7,422**	**6,364**	**472**	**135,708**
Additions	116	1,099	945	-	54	2,214
Disposals	74	366	(126)	(797)	-	(482)
Transfers	(198)	(1,105)	1,503	(565)	(37)	(402)
Revaluation	8,990	(9,073)	333	(114)	1	137
Translation to presentation currency	(4,155)	(1,744)	(500)	(270)	(26)	(6,695)
At 31 December 2009	**89,489**	**26,331**	**9,577**	**4,618**	**464**	**130,480**
<u>Accumulated depreciation</u>						
At 1 January 2008	-	-	-	-	-	-
Acquired through business combination	(11,508)	(11,020)	(7,693)	-	(104)	(30,325)
Depreciation charge	(3,026)	(3,610)	(2,644)	-	(60)	(9,339)
Disposals	-	1,213	49	-	(2)	1,260

Revaluations	2,516	1,144	2,754	-	-	6,414
Other movements	-	-	-	-	-	-
Translation to presentation currency	3,243	2,231	3,088	-	36	8,597
31 December 2008	**(8,775)**	**(10,042)**	**(4,446)**	**-**	**(130)**	**(23,393)**
Depreciation charge	(2,677)	(3,579)	(1,392)	-	(23)	(7,671)
Transfers	268	(2,221)	1,929	-	23	-
Disposals	44	564	157	-	-	765
Revaluations	6,771	11,673	259	-	-	18,702
Other movements	-	-	-	-	-	-
Translation to presentation currency	481	637	175	-	5	1,299
31 December 2009	**(3,888)**	**(2,968)**	**(3,318)**	**-**	**(125)**	**(10,298)**
Net book value						
31 December 2008	**75,887**	**26,746**	**2,976**	**6,364**	**342**	**112,315**
31 December 2009	**85,601**	**23,363**	**6,259**	**4,618**	**339**	**120,182**

At 31 December 2009 bank borrowings are secured on properties for the value of EUR 64,405 thousand (2008: EUR 47,232 thousand) (note 15).

The Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value as at 31 December 2009 and 31 December 2008 was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

As a result of the revaluation, a revaluation surplus of EUR 20,433 thousand (2008: EUR 32,776 thousand) and specific impairments of EUR 1,610 thousand (2008: EUR 1,416 thousand) were recorded.

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

	Land and buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
31 December 2008	17,639	16,133	3,583	6,364	342	**44,062**
31 December 2009	16,196	16,942	5,019	4,618	339	**43,115**

At 31 December 2009 the gross carrying value of fully depreciated property, plant and equipment is EUR 2,464 thousand (2008: EUR 2,686 thousand).

12 Goodwill

The goodwill of EUR 1,968 thousand (2008: EUR 2,060 thousand) is a result of acquisition of Ostankino Dairy Combine (note 1). Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian company, with Russian Roubles being the functional currency, goodwill is translated each year as part of the translation of the foreign operation. Translation differences are presented in other comprehensive income.

Impairment test for goodwill

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

The recoverable amounts of the cash-generating unit are based on value in use calculations. Value in use was determined by discounting the future pre-tax cash flows generated from the continuing use of the unit using a pre-tax discount rate.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.

- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

	2009	2008
Pre-tax discount rate	17.41 %	21.24 %
Revenue growth rate for the five-year period	3 % - 10 %	4 %-6 %
Net profit growth rate for the five-year period	3 % - 11 %	4 %-6 %
Revenue growth rate after the five-year period	0 %	5 %

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 2009 and in 2008. 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.

13 Trade and other payables

	2009	2008
Trade payables	9,714	9,941
Wages and salaries payable	1,066	1,159
Accounts payable for fixed assets	275	463
Accrual for audit fees and consulting services	86	154
Interest payable	333	567
Total financial liabilities within trade and other payable	**11,474**	**12,284**
Advances received	780	4,632
Other accounts payable	572	1,708
Accruals for employees' unused vacations	750	537
	13,576	**19,161**

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 29.

14 Other taxes payable

	2009	2008
VAT payable	116	80
Payroll related taxes	82	128
Other taxes payable	624	465
	822	**673**

15 Interest bearing loans and borrowings

	2009	2008
Current		
Interest bearing loans due to banks	29,695	55,561
Loans from non-financial institutions	1,291	10,045
Bank overdrafts	-	2,466
Total current borrowings	**30,986**	**68,072**
Non-current		
Interest bearing loans due to banks	52,747	30,443
Loans from non-financial institutions	9,202	-
Total non-current borrowings	**61,949**	**30,443**

Total borrowings	**92,935**	**98,515**

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

	2009	**2008**
6 months or less	16,921	14,287
6-12 months	14,065	53,786
1-5 years	61,949	30,442
	92,935	**98,515**

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

	2009					**2008**				
	USD	**EUR**	**UAH**	**RUR**	**Total**	**USD**	**EUR**	**UAH**	**RUR**	**Total**
12 months or less										
Outstanding balance, thousand EUR	4,714	1,488	8,305	16,479	**30,986**	38,938	489	15,120	13,526	**68,072**
Average interest rate, %	12.35	14.23	22.25	16.16	**18.21**	11.84	12.46	20.83	19.77	**14.34**
1-5 years										
Outstanding balance, thousand EUR	51,903	652	4,983	4,411	**61,949**	25,065	2,027	962	2,389	**30,443**
Average interest rate, %	10.5	12.46	16.75	3.5	**11.07**	10.64	14.23	19.63	4.5	**11.21**

Non-current loans from non-financial institutions consist of the loan from the Department of Food Stocks of the City of Moscow (note 17), bearing contractual annual interest of 1/3 of Central Bank's refinancing rate at the date of agreement [15 January 2010] (i.e. – 3.5 %) until at the date of the extension [15 February 2010] and 1/2 of Central Bank's refinancing rate at the date of the extension (i.e. – 4.5 %) until maturity (15 February 2011). The loans are secured by the bank guarantee at the amount of EUR 4,635 thousand provided by the Bank of Moscow and bearing 2 % interest rate. The carrying amounts of loans and borrowings approximate their fair value.

As at 31 December 2009 the loans at the amount of EUR 6,465 thousand (2008: EUR 6,819 thousand) were secured by property of third party.

16 Leases

Finance leases

	2009	**2008**
Finance leases liabilities-minimum lease payments		
Not later than 1 year	-	685
Later than 1 year and not later than 5 years	-	-
Future finance charges on finance leases	-	(78)
Present value of finance leases liabilities	-	607
Not later than 1 year	-	607
Later than 1 year and not later than 5 years	-	-

In 2008 and 2009 the Company leased machinery and equipment for a period of 36 months with an option to acquire leased assets at contract value at the end of the lease. In July 2009 this option was exercised.

Operating leases – lessee

The company leases the land plots, on which its buildings are located, under operating lease agreements for remaining periods of 37-48 years:

The total future value of minimum lease payments is due as follows:

	2009	2008
No later than one year	76	76
Later than one year and no later than five years	304	304
Later than five years	3,037	3,113

17 Government grants

Agricultural companies of Milkiland Ukraine Group receive government subsidy in the form of VAT paid for their products by customers. Mentioned subsidy is set according to the Law of Ukraine "About VAT" and procedure of using of the subsidy is set by Ukrainian Government every year. The subsidy at the amount of EUR 339 thousand (2008: EUR 389 thousand) is recognised as income on the face of statement of comprehensive income.

The Group received a EUR 140 thousand (2008: EUR 389 thousand) subsidy from the City of Moscow for a partial compensation of building and equipment renovations completed and put in service in 2009. The Group met all of its obligations to the grant provider in 2009 and recognised the grant of 140 thousand as deferred income and amortisation of it at the amount of EUR 18 thousand (2008: nil) as deduction of the related depreciation expense.

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

	2009	2008
Balance at the beginning of the year	389	-
Grant obtained during the year	140	442
Amortisation of government grant	(18)	-
Foreign exchange difference	(15)	(53)
Balance at the end of the year	**496**	**389**

The Group received a subsidised loan from the City of Moscow in the amount of EUR 4,411 thousand at preferential 3.5 % interest rate (note 15). Under the loan agreement the Group is obliged to purchase established amounts of food products per year as well as to maintain related minimum stock levels. The Group met all of its grant obligations to the grant provider for 2009 and recognized the grant for the difference from the market interest rate of EUR 540 thousand (2008: nil) as deduction of the related interest expense.

The Group obtained and recognised as deduction of the related expense grant from the City of Moscow of EUR 680 thousand (2008: nil) to compensate for the costs of packaging materials purchased from Russian supplier (note 20).

The Group obtained and recognised as deduction of the related finance expense grant from the City of Moscow of EUR 346 thousand (2008: nil) to compensate for the finance expenses related to loans and borrowings used to purchase the natural milk (note 24).

18 Issued capital and reserves

On 3 December 2007 the shareholders of the Company have taken a decision about splitting of the currently outstanding shares into ten (10) shares with a nominal value of ten Eurocent (€ 0.10) each and future issuing of 24,100,000 of ordinary shares, amounting EUR 2,410 thousand. The Shareholder has pre-paid EUR 2,410 thousand for these shares on the basis of the preliminary agreement on issuing and purchase of shares signed on 4 December 2007.

On 9 June 2008 the Company issued 24,100,000 ordinary shares with a nominal value of ten Eurocent (€ 0.10). As at 09 June, 2008 the Company's issued capital amounts to EUR 2,500 thousand.

The authorised, issued and paid up share capital of Milkiland N.V. amounts to EUR 2,500 thousand (2008: EUR 2,500 thousand).

19 Revenue

	2009	2008
Cheese	87,070	83,881
Whole-milk products	86,687	127,286
Butter	12,908	23,095

Dry milk products	9,317	29,005
Ice-cream	1,223	2,317
Other	2,803	4,833
Total	**200,008**	**270,417**

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

	2009		2008	
Country	net sales	% of sales	net sales	% of sales
Russia	127,600	64 %	147,803	55 %
Ukraine	62,055	31 %	100,297	37 %
Kazakhstan	3,873	2 %	7,617	3 %
Poland	284	0 %	-	0 %
Moldova	451	0 %	-	0 %
Belorussia	207	0 %	307	0 %
Azerbaijan	-	0 %	893	0 %
Holland	-	0 %	6,051	2 %
Denmark	-	0 %	720	0 %
Italia	-	0 %	-	0 %
Singapore	-	0 %	616	0 %
Armenia	-	0 %	758	0 %
Germany	-	0 %	763	0 %
Afghanistan	-	0 %	-	0 %
Other	5,538	3 %	4,592	2 %
Total	**200,008**		**270,417**	

20 Cost of sales

	2009	2008
Raw materials	81,151	124,149
Other materials	8,904	13,083
Wages and salaries	7,883	9,448
Depreciation	6,405	7,952
Transportation costs	5,810	6,715
Gas	5,457	5,351
Electricity	3,687	4,338
Social insurance and state pension plan contributions	2,497	3,088
Repairs of property, plant and equipment	1,215	1,374
Cost of sold materials	1,179	1,707
Water	847	915
Other	4,940	9,411
	129,975	**187,531**

In 2009 other materials are shown net of government grant at the amount of EUR 680 thousand (2008: nil) (note 17).

21 Selling expenses

	2009	2008
Transportation costs	9,108	11,314
Security and other services	2,136	1,647

Marketing and advertising	1,918	1,669
Wages and salaries	3,816	3,972
Social insurance and state pension plan contributions	923	984
Licence fees	143	88
Rental costs	131	135
Depreciation and amortisation	90	61
Other	422	439
	18,687	**20,309**

22 Administrative expenses

	2009	2008
Wages and salaries	8,181	11,282
Representative charges	3,491	7,133
Social insurance, state pension plan contributions and other charges	2,793	3,605
Other utilities	2,345	5,053
Consulting fees	1,726	1,158
Bank commission	1,322	1,722
Repairs and maintanance	1,292	2,733
Depreciation and amortisation	1,186	1,652
Security and other services	1,039	1,360
Transportation costs	709	1,236
Property insurance	512	383
Licence fees	460	614
Rental costs	307	435
Communication	228	363
Office supplies	70	107
Other	589	905
Total	**26,250**	**39,741**

23 Other income and expenses

	2009	2008
Other operating income	302	416
Profit from disposal of financial investments	163	101
Gain/(loss) from disposal of non-current assets	23	(779)
Penalties	(154)	(530)
Loss from write off of inventories	(423)	(1,187)
Change in provision and write off of trade and other accounts receivable	(275)	(1,339)
Loss from revaluation of non-current assets	(1,610)	(1,416)
Other expenses	(1,259)	(1,122)
	(3,233)	**(5,856)**

24 Finance income and expenses

	2009	2008
Finance income		
- Bank deposits	430	31
- Trade and other accounts receivable	423	-
	853	**31**

Finance expenses		
- Bank borrowings	(13,390)	(14,081)
- Other borrowings	(570)	(563)
- Finance leases	(226)	(409)
	(14,186)	**(15,053)**
Net finance expense recognised in statements of comprehensive income	**(13,333)**	**(15,022)**

25 Income tax

	2009	2008
Income tax expense – current	(891)	(2,655)
Deferred tax (expense) benefit – origination and reversal of temporary differences	1,137	(925)
Deferred tax expense (income) resulting from reduction in tax rate	-	1,091
Income tax (expense) benefit	**245**	**(2,489)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2009 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25 % (2008: 25 %), Russian profit was levied at the rate of 20 % (2008: 24 %) The profit of two Ukrainian companies of the Group was subject to single agricultural tax, which is estimated based on the land area and normative valuation of the land. In 2009 the Group has reflected the single tax at the amount of EUR 4 thousand (2008: EUR 3 thousand) in administrative expenses. In 2009 the tax rate for Panama operations was 0 % (2008: 0 %) on worldwide income.

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

	2009	2008
Profit/(loss) before taxation, including	**7,922**	**(13,509)**
Profit of companies levied a single agricultural tax (Ukrainian operations)	5,059	26,775
Loss of other Ukrainian companies	(29,456)	(37,797)
Profit of Ostankino Dairy Combine	(38)	3,710
(Loss)/profit before income tax of non-Ukrainian companies	32,357	(6,197)
Income tax charge at statutory rate of 25 % (Ukrainian operations)	(7,364)	(9,449)
Income tax charge at statutory rate of 20 % (2008: 24 %) (Russian operations)	(8)	890
Income tax charge at statutory rate of 25.5 % (Dutch operations)	-	-
Income tax charge at statutory rate of 0 % (Panama)	-	-
Change in deferred taxes resulting from reduction in tax rate	-	(1,091)
Provision in respect of irrecoverable deferred tax asset	3,679	492
Reassessment of deferred tax liability	238	(862)
Tax effect of items which are permanently not deductible or assessable for taxation purposes	**3,210**	**12,509**
Income tax expense	**(245)**	**2,489**

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

	2009	2008

Deferred tax liability	(25,993)	(24,837)
Deferred tax asset	5,545	6,989
	(20,448)	**(17,848)**

As at 31 December 2009 deferred tax assets are shown net of provision for irrecoverable deferred tax assets at the amount of EUR 3,741 thousand (2008: nil)

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

	31 December 2008	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to equity	Currency Translation	31 December 2009
Recognised deferred tax assets attributable to the following elements:					
Trade and other receivables	255	959	-	(56)	1,158
Inventories	188	(165)	-	(11)	12
Other non-current liabilities	78	25	-	(3)	100
Property, plant and equipment	599	(596)	-	(3)	-
Trade and other payables	186	16	-	(15)	187
Advances received	33,619	18,672	-	(2,626)	49,665
Other	248	(171)	-	(15)	62
Less accrued provision	-	(3,926)	-	107	(3,819)
Deferred tax assets	**35,173**	**14,814**	**-**	**(2,622)**	**47,365**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	26	(25)	-	(1)	-
Trade and other receivables	-	-	-	-	-
Advances paid and prepaid expenses	(36,351)	(15,160)	-	2,683	(48,828)
Property, plant and equipment	(16,684)	1,496	(4,522)	725	(18,985)
Other	(12)	12	-	-	-
Deffered tax liabilities	**(53,021)**	**(13,677)**	**(4,522)**	**3,407**	**(67,813)**
Total deffered tax assets and liabilities	**(17,848)**	**1,137**	**(4,522)**	**785**	**(20,448)**

Comparative information for 2008:

	31 December 2007	Purchased with subsidiaries	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to equity	Currency Translation	31 December 2008
Recognised deferred tax assets attributable to the following elements:						
Loss carry-forward	-	761	(750)	-	(11)	-
Trade and other receivables	-	248	45	-	(38)	255
Inventories	-	-	214	-	(26)	188
Other non-current liabilities	-	-	88	-	(10)	78
Property, plant and equipment	-	-	572	-	27	599
Trade and other payables	-	97	116	-	(27)	186
Advances received	-	2,860	29,242	-	1,517	33,619
Other	-	89	195	-	(36)	248
Deffered tax assets	**-**	**4,055**	**29,722**	**-**	**1,396**	**35,173**
Recognised deferred tax liabilities attributable to the following elements:						
Inventories	-	(845)	857	-	14	26
Advances paid and prepaid expenses	-	(2,860)	(31,848)	-	(1,643)	(36,351)
Property, plant and equipment	-	(8,837)	1,200	(10,018)	971	(16,684)
Other	-	(250)	235	-	3	(12)
Deffered tax liabilities	**-**	**(12,792)**	**(29,556)**	**(10,018)**	**(655)**	**(53,021)**
Total deffered tax assets and liabilities	**-**	**(8,737)**	**166**	**(10,018)**	**741**	**(17,848)**

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

	2009	2008
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	1,372	1,154
- Deferred tax asset to be recovered within 12 months	45,993	34,019
	47,365	**35,173**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(7,696)	(7,123)
- Deferred tax liability to be recovered within 12 months	(60,117)	(45,898)
	(67,813)	**(53,021)**
Deferred tax liabilities, net	**(20,448)**	**(17,848)**

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

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

Based on the evaluation the Company determined the provision at the amount of EUR 3,926 thousand.

26 Correction of errors and reclassifications

In the course of preparation of financial statements for 2009 management has revised the classification of certain items of the statement of comprehensive income for 2008. Restated comparative figures in the statement of financial position of the beginning of the comparative period are not presented as the restatements in these figures are not material.

Effects of reclassifications of statement of comprehensive income for 2008 are summarised in the table below:

	As previously reported	Reclassifi-cations	As reclassified	Notes
Statement of comprehensive income				
Sales	272,509	(2,092)	270,417	1
Cost of sales	(186,325)	(1,206)	(187,531)	2, 3, 4
Selling expenses		(20,309)	(20,309)	1, 2, 3
Depreciation and amortisation	(9,665)	9,665	-	2
Administrative expenses	(54,423)	14,682	(39,741)	2, 3, 4, 5, 7
Other income/(expenses)	(5,153)	(703)	(5,856)	5, 7
Foreign exchange loss, net	(15,819)	(37)	(15,856)	7
Statement of financial position				
Other current liabilities	325	(325)	-	6
Trade and other payables	18,852	309	19,161	6, 7

Note 1. Discounts provided to customers at the amount EUR 2,092 thousand, that were presented as advertisement expenses, were classified as a reduction from revenue.

Note 2. Classification of depreciation expenses as cost of sales at the amount of EUR 8,014 thousand, administrative expenses at the amount of EUR 1,590 thousand and selling expenses at the amount of EUR 61 thousand.

Note 3. Classification of selling expenses as a separate line item of the statement of comprehensive income. At the result of such reclassification cost of sales reduced by EUR 7,858 thousand, administrative expenses reduced by EUR 14,482 thousand.

Note 4. Classification of bonuses for the milk purchased from farmers at the amount of EUR 1,113 thousand as cost of sales.

Note 5. Classification of changes in provisions for bad and doubtful debts at the amount of EUR 1,339 thousand as other operating expenses.

Note 6. Other current liabilities (which included the provision for audit and provision for unused vacation) at the amount of EUR 325 k are reclassified to trade and other payables

Note 7. Other reclassifications.

27 Contingent and deferred liabilities

Litigation

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

Taxation

Ukraine currently has a number of laws related to various taxes and levies imposed by both state and local authorities. Laws relating to these taxes are subject to frequent changes, and regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist within various bodies, thus creating uncertainties and areas of conflict. These facts create a tax risk in Ukraine substantially more significant than typically found in countries with a more developed tax system.

The group's management believes that tax liabilities are provided sufficiently based on the tax legislation interpretation, official interpretations and court decisions. However, interpretations of corresponding inspection bodies may differ from the Group's position and the effect on the financial statements may be significant if these bodies are able to dispute these interpretations. As a result additional taxes, fines and penalties may be imposed. No provisions were charged as to contingent tax liabilities in these financial statements.

Insurance policies

The Group insures all significant property. As at 31 December 2009, 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 2009 the Company insured its property, plant and equipment for a total amount of EUR 87,012 thousand (2008: EUR 77,433 thousand).

The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Acquisition of minority interest

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland N.V. is obliged to send a public offer about acquisition of other 673,697 ordinary registered shares to all minority shareholders of Ostankino Dairy Combine. Should all the minority shareholders exercise their sale option, Milkiland N.V. will be obliged to pay the total amount of RUR 327,820 thousand, which comprises EUR 7,556 thousand at 31 December 2009 (2008: 7,910 thousand). Management is planning to send a public offer by the end of 2010.

Guarantees for third parties

As at 31 December 2009 the Group had a guarantee of EUR 5,440 thousand (2008: EUR 7,378 thousand) granted for the benefit of third party under the credit line provided by OTP bank.

28 Capital management policy

Main objectives of the Group's capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.

Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the years ended 31 December 2009 and 2008 no changes were made in objectives, policies and procedures of the capital management.

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

The Group does not have any external requirements to the capital amount.

	2009	2008
Total borrowings	92,935	99,122
Less: cash and cash equivalents	(6,676)	(3,181)
Net debt	**86,259**	**95,941**
Total equity	50,302	29,114
Total capital	**136,561**	**125,055**
Net debt to capital ratio	**63.17 %**	**76.72 %**

29 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.

In the fourth quarter of 2008 The Company was affected by deterioration of Ukrainian Currency against USD and EUR . It brings additional risks into business because of stretching of margin but, at the same time, promotes export activity, which becomes more profitable in conditions of reduced domestic currency. The official UAH to USD exchange rate of the National Bank of Ukraine devalued by 5.32 % from UAH 7.61 at 11 July 2009 to UAH 8.02 at 05 November 2009 (In 2008, 58.4 % from UAH 4.86 at 30 September 2008 to UAH 7.70 at 31 December 2008). While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions.

As of 31 December 2009 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUR	UAH	Total
Financial Assets					
Trade accounts receivable	-	896	9,724	5,397	16,017
Cash and cash equivalents	3	416	512	5,745	6,676
Total financial assets	**3**	**1,312**	**10,236**	**11,142**	**22,693**
Financial Liabilities					
Loans and borrowings	2,140	56,617	20,890	13,288	92,935
Trade and other payables	-	-	5,511	5,963	11,474
Total financial liabilities	**2,140**	**56,617**	**26,401**	**19,251**	**104,409**

Comparative information for 2008:

	EUR	USD	RUR	UAH	Total
Financial Assets					
Trade accounts receivable	-	153	13,009	1,818	14,980
Cash and cash equivalents	-	996	929	1,256	3,181
Total financial assets	**-**	**1,149**	**13,938**	**3,074**	**18,161**
Financial Liabilities					
Loans and borrowings	2,515	64,003	31,997	-	98,515
Trade and other payables	-	-	5,121	7,163	12,284
Short-term lease payable	-	-	607	-	607
Total financial liabilities	**2,515**	**64,003**	**37,725**	**7,163**	**111,406**

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

	2009		2008	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 10 % (2008: 10 %)	5,033	5,033	5,718	5,718
USD weakening by 10 % (2008: 10 %)	(5,033)	(5,033)	(5,718)	(5,718)
Euro strengthening by 10 % (2008: 10 %)	194	194	229	229
Euro weakening by 10 % (2008: 10 %)	(194)	(194)	(229)	(229)
RUR strengthening by 10 % (2008: 10 %)	(181)	(181)	916	916
RUR weakening by 10 % (2008: 10 %)	181	181	(916)	(916)

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

Credit risk

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

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

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

	2009	2008
Ratings by Fitch Investors Service		
B-	2,180	1,213
BB	-	355
BBB	187	532
BBB-	142	-

unrated	4,062	654
Cash on hand	105	427
	6,676	**3,181**

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.

	2009		**2008**	
	Carrying value	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Financial assets				
Cash and cash equivalents	6,676	6,676	3,181	3,181
Trade and other receivables	16,017	16,017	14,980	14,980
	22,693	**22,693**	**18,161**	**18,161**

Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has no significant interest-bearing assets.

Interest rate risk arises from movements in interest rates which could affect the Company's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is carried out by the corporate finance department.

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

At the end of 2009 the Group had approximately 66 % (2008: 69 %) of its borrowings in fixed rate instruments and 34 % (2008: 31 %) in variable rate instruments.

In 2009, if interest rates on borrowings had been 1 % higher with all other variables held constant, post-tax profit for the year ended 31 December and equity as at 31 December would have been:

	2009	**2008**
Post tax profit	7, 240	(14,495)
Equity	49,345	28,129

Liquidity risk

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

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

	Up to 6 months	6-12 months	1 - 2 years
Trade and other accounts payable (note 13)	11,474	-	-
Borrowings (note 15)	16,921	14,065	61,949
Finance leases payable (note 16)	-	-	-
Total	**28,395**	**14,065**	**61,949**

Comparative information at 31 December 2008 is as follows:

	Up to 6 months	6-12 months	1 - 2 years
Trade and other accounts payable (note 13)	12,284	-	-
Borrowings (note 15)	14,287	53,786	30,442
Finance leases payable (note 16)	607	-	-
Total	**27,178**	**53,786**	**30,442**

Fair value

A carrying amount of financial assets and liabilities is deemed to be equal to their fair value.

Fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The best confirmation of the fair value of financial instruments is their current quotation on a constantly acting market.

The fair value of financial instruments was determined by the Group applying available information about current market quotations, if any, and relevant estimation methods. However, during the interpretation of market information applied while the fair value determination, professional judgments are required. As before Ukrainian economy is exposed to certain risks of a developing economy, and in the current economic environment the activity of financial markets is limited. Market quotations may be old or those that were made as a result of transactions of a forced, non-market nature, and, thus, not reflecting the fair value of financial instruments. The Group's management applied in its estimations all available market information.

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 as 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.

30 Earnings per share

	2009	2008
Numerator		
Earnings used in basic and diluted EPS	8,109	6,227
Denominator, in thousand		

Weighted average number of shares used in basic and dilluted EPS	25,000	14,173

31 Subsequent events

In the period from 1 January 2010 to 31 May 2010 the Group has refinanced the loan from JSC Ukreksimbank with a loan from LLC Eurobudkom, a related party, at the amount of EUR 17,107 thousand. The maturity of the loan is as follows:

Old Creditor	Currency	Maturity	In thousand EUR	New creditor	Currency	Maturity	In thousand EUR
JSC Ukreksimbank	USD	2014	16,188	LLC Eurobudkom	USD	2014	16,188
JSC Ukreksimbank	USD	2010	919	LLC Eurobudkom	USD	2010	919
Total			**17,107**				**17,107**

Interest rate charged by LLC Eurobudkom is 12 % per annum, the same as was charged by JSC Ukreksimbank.

Balance sheet as at 31 December 2009
(All amounts in EUR thousands unless otherwise stated)

STATUTORY ACCOUNTS

	Notes	2009	2008
ASSETS			
Current Assets			
Cash and cash equivalents		56	38
Receivables	5	354	32
Taxes and social security	5	29	28
Other receivables and prepaid expenses		-	46
		439	**144**
Fixed assets			
Financial fixed assets			
Goodwill	3	1,968	2,060
Investments in participating interests	4	65,472	48,137
		67,440	**50,197**
TOTAL ASSETS		**67,879**	**50,341**
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables		-	41
Other current liabilities	7	30,317	30,286
		30,317	**30,327**
Shareholder's equity			
Issued and paid-up share capital		2,500	2,500
Revaluation reserve		32,689	22,758
Currency translation reserve		(14,152)	(11,474)
Unappropriate result		16,525	6,230
Total equity	6	**37,562**	**20,014**
TOTAL LIABILITIES AND EQUITY		**67,879**	**50,341**

Income Statement for the year ended 31 December 2009

(All amounts in EUR thousands unless otherwise stated)

	Notes	2009	2008
Revenue from Group companies		800	855
Other operating expenses	8	(904)	(456)
Operating profit/(loss)		**(104)**	**399**
Finance income		-	9
Foreign exchange gain/(loss), net		424	(1,632)
Profit before tax		**320**	**(1,224)**
Income tax		-	-
Share of profit of participating interests, after income tax		7,790	(15,915)
Gains realised from acquisitions	9	-	23,366
Profit/(loss) for the year		**8,110**	**6,227**

1. General

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

2. Significant accounting policies

Basis of preparation.

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

Foreign currency.

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

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

Financial fixed assets.

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

Receivables

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

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

Cash and cash equivalents

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

Current liabilities

The short term liabilities are due within one year.

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

3. Goodwill

The goodwill of EUR 2,060 thousands is a result of a subsidiary acquisition and recognized as an asset. Goodwill is initially recognized as an asset during the primary evaluation. Impairment testing is performed annually.

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

4. Investments in participating interests

Participants	2009	2008
Ostankino Dairy Combine, Russia	30,613	24,951
DE Milkiland Ukraine (2008: DE Milkiland Ukraine and Milkiland Corporation)	34,859	23,186
	65,472	**48,137**

Movement during the year is the following:

	2009	2008
At 1 January	48,137	-
Acquisition of subsidiaries	-	53,641
Profit/(loss) for the year	7,790	(15,918)
Currency translation differences	(2,587)	(11,474)
Dividend payments by participating interests	-	(870)
Change in revaluation reserve	12,785	22,758
Other direct equity movements	(653)	-
At 31 December	**65,472**	**48,137**

5. Receivables

	2009	2008
Receivables from group companies		
Milkiland Corporation	354	32
	354	**32**
Taxes and social security		
Input VAT	29	28

6. Shareholder's equity

The authorized share capital of the company amounts to EUR 5.000.000 consisting of 50.000.000 ordinary shares with a nominal value of EUR 0,10 each. At year-end 2009, 25.000.000 ordinary shares have been issued and fully paid up.

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

in thousands euro	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriate result	Total
Balance as at 1 January 2008	**18**	**2,482**	-	-	**3**	**2,503**
Result of appropriation	-	-	-	-	6,227	**6,227**
Issue of common shares	2,482	-	-	-	-	**2,482**
Movement in revaluation reserve	-	-	-	22,758	-	**22,758**
Other movements	-	(2,482)	(11,474)	-	-	**(13,956)**
Balance as at 31 December 2008	**2,500**	**0**	**(11,474)**	**22,758**	**6,230**	**20,014**
Result of appropriation	-	-	-	-	8,109	**8,109**
Movement in revaluation reserve	-	-	-	12,785	-	**12,785**
Realised revaluation reserve, net of income tax	-	-	-	(2,186)	2,186	**0**
Other movements	-	-	(2,678)	(668)	-	**(3,346)**
Balance as at 31 December 2009	**2,500**	**-**	**(14,152)**	**32,689**	**16,525**	**37,562**

7. Current liabilities

	2009	2008
Advance from Milkiland Corporation, previously IC Tabylga	25,912	26,247
Other liabilities to Milkiland Corporation	4,405	4,040
	30,317	**30,286**

8. Other operating expenses

	2009	2008
Consultancy fee	770	44
Tax advisory and audit fee	64	58
Management fee	45	49
Administrative fee	12	28
Legal fees	10	259
Other expenses	2	8
Bank charges	1	-
Rental and utilities expenses	-	10
	904	**456**

9. Gains realised from acquisitions

Gains realised from acquisitions is a result of the difference between the purchase price of Milkiland Ukraine Group and the fair value at time of the purchase.

Other information

Average number of employees

During 2009 and 2008 no employees were employed on the basis of a full time service contract.

Subsequent events

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland N.V. is obliged to send a public offer about acquisition of other 673,697 ordinary registered shares to all minority shareholders of Ostankino Dairy Combine. Should all the minority shareholders exercise their sale option, Milkiland N.V. will be obliged to pay the total amount of RUR 327,820 thousand, which comprises EUR 7,556 thousand at 31 December 2009 (2008: 7,910 thousand). Management is planning to send a public offer by the end of 2010.

Proposed appropriation of the result after taxes 2009

It is proposed to the General Meeting of Shareholders to add the net-result to the retained earnings. This proposed appropriation of the result (after taxes) has been incorporated into the accounts.

Board of directors of Milkiland N.V.

Amsterdam, 26 July 2010,

Director	Director	Director	Director
O. Yurkevych	A. Yurkevych	V. Rekov	P.I. Yokhym

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Bijster 49-55, 4817 HZ Breda
Nederland

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

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2009 of Milkiland N.V., Amsterdam. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2009, the company profit and loss account for the year then ended and the notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2009, and of 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 Netherlands 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, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Breda, July 26, 2010

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

L.C. Augustijn RA

MILKILAND N.V.

Consolidated Financial Statements

For year ended 31 December 2008

Management Report

Management is responsible for preparation of the consolidated financial statements that presents fairly in all material aspects the financial position of the Company as at December 31, 2008 in accordance with International Financial reporting Standards (IFRS).

During preparation of the consolidated financial statements management is responsible for:

Selection of appropriate financial accounting principles and their future applying;

Using reasonable estimations and assumptions;

Follow IFRS and disclosing all material deviations in notes to the consolidated financial statements.

Preparation of the consolidated financial statements based on going-concern assumption, less cases when such assumption is illegible

Management is responsible for:

- Development, implementation and functioning effective and reliable internal control system in the Company.
- Maintain financial accounting system that allows at any moment prepare at a certain degree of accuracy information on financial position of the Company and provides compliance of consolidated financial statements with IFRS requirements.
- Take measures within self competence to secure Company's assets.
- Avoid and disclose fraud.

Consolidated financial statements for the period ended December 31, 2008 were confirmed on October 13, 2009 on behalf of Company's management.

Operational Director	______________________	Vyacheslav Rekov
Director	______________________	Pavlo Yokhym

Consolidated Balance Sheet as st 31 December 2008

before appropriation of result

(in 1.000 EUR)	Notes	December 31, 2008	December 31, 2007
Assets			
Current Assets:			
Cash and cash equivalents	11	3 181	25.171
Accounts receivable, net of allowance for doubtful accounts	10	27 163	6.898
Inventories	9	16 965	-
Prepayments		48	-
Taxes receivable	12	4 914	16
		52 271	**32.085**
Non-Current Assets:			
Goodwill	3	2.060	-
Property, plant and equipment	8	112 315	-
Deferred tax assets		7 945	-
		122 320	-
Total Assets		**174.591**	**32.085**
Liabilities and Stockholders' Equity:			
Current liabilities:			
Accounts payable	13	18 852	43
Taxes payable	14	1 014	-
Bank loans	15	68 073	-
Short-term lease payable	19	607	-
Other current liabilities		325	29.539
		88 871	**29.582**
Non-Current Liabilities:			
Long-term bank loans	15	30 442	-
Deferred tax liabilities		25 792	-
Other non-current liabilities		372	-
		56.606	-
Minority Interest		**9 100**	-
Stockholders' Equity:			
Share capital	21	2 500	18
Share premium		-	2.482
Revaluation reserve		22.758	-
Currency translation reserve		(11.474)	-
Retained earnings		6.230	3
		20.014	**2.503**
Total Liabilities and Stockholders' Equity		**174.591**	**32.085**

Consolidated Statement of Comprehensive Income

(in 1.000 EUR)	Notes	2008	2007
Sales	4	272 509	208
Cost of goods sold	5	(186 325)	(205)
Gross Profit		**86 184**	**3**
Subsidies	17	389	
Selling, general and administrative expenses	6	(54 423)	
Operating Income		**32 150**	
Foreign exchange gains/(loss),net		(15 819)	
Interest income		31	
Interest expenses		(15 053)	
Depreciation		(9 665)	
Other income/(expenses)	16	(5.153)	
Profit (loss(before taxation		**(13.509)**	**3**
Income tax expense	18	(2 488)	
Net Profit (loss)		**(15.998)**	**3**
Badwill/lucky buy		23.366	
Attributable to:			
Minority interest	7	(1 141)	
Equity holders of the Group	20	**6.227**	**3**
Income/loss recognized in Equity:			
Currency translation adjustments		(11.474)	
Revaluation of Fixed Assets		22 758	
Total Comprehensive Income		**17.511**	**3**

Operational Director ______________________ Vyacheslav Rekov

Director ______________________ **Pavlo Yokhym**

Consolidated Cash Flow Statement

(in 1.000 EUR)

Cash flow from operating activities	
Income for the group	6.227
Adjustments for:	
Depreciation and amortization	9.665
Operating cash flows before working capital changes	**15.892**
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	-20.265
(Increase) decrease inventories	-16.965
(Increase) decrease prepayments	-48
(Increase) decrease taxes receivable	-12.843
(Decrease) increase in accounts payable	18.810
(Decrease) increase in taxes payable	26.806
(Decrease) in other current liabilities	-29.214
Net cash from operating activity	**-33.719**
Investing activities:	
Acquisition of property, plant and equipment	-102.258
Proceeds from sale of plants and equipment	3.036
Goodwill	-2.060
Net cash from investment activity	**-101.282**
Financing activities:	
Currency translation	-11.474
Minority interest	9.100
Change in borrowings	99.494
Net cash from financial activity	**97.120**
Net increase (decrease) in cash	-21.989
Cash at beginning of the period	25.171
Cash at the end of the period	3.182

Operational Director ______________________ Vyacheslav Rekov

Director ______________________ Pavlo Yokhym

Consolidated statements of changes in equity

(in 1.000 EUR)	*Issued and paid-up capital*	*Share premium reserve*	*Currency translation reserve*	*Revaluation reserve*	*Retained earnings / and unappropriated result for the year*	*Total*
Balance as at 1 January 2008	18	2.482			3	2.503
Proposed Result appropriation					6.227	6.227
Issue of common shares	2.482					2.482
Other movements		-2.482	-11.474	22.758		8.802
Balance as at 31 December 2008	2.500	0	-11.474	22.758	6.230	20.014

Operational Director ______________________ Vyacheslav Rekov

Director ______________________ Pavlo Yokhym

Accounting Principles

1. General

These consolidated financial statements includes several companies (the Companies) ultimately controlled by two individuals. During 2007-2008 the Companies were restructured to form a consolidated group (the Group). The Companies include:

- Milkiland Corporation, Panama
- DE "Milkiland Ukraine", Ukraine, including subsidiaries
- Since July 13, 2007 Milkiland N.V., Netherlands
- Since January 01, 2008 JSC "Ostankino Dairy Combine", Russia.

Prior to 2008, the Companies constituted a legal group, under control of Milkiland Corporation. Accordingly, for the purposes of presenting historical financial information, the financial statements as at and for the years ended 31 December 2006 and 2007 are consolidated as if the Group existed during those periods in the same legal structure that is in place as at 30 June 2008.

The Milkiland Corporation was incorporated and domiciled in Panama on August 18, 1999. The Milkiland Corporation was formed as company limited by shares and had named Dairy Food Corporation, subsequently renamed to Milkiland Corporation.

Milkiland Corporation issued its share capital on August 18, 1999, than purchased a subsidiary, BKS Miltek, now DE Milkiland Ukraine that was incorporated in Ukraine on December 9, 1999.

In 2002 the Group acquired a control over three Ukrainian milk factories: JSC Sumsky molochniy zavod, Borsna MZ, Nosovka MZ.

In 2003 the Group acquired a control over JSC Mensky Syr, Myrhorod Syr, Lviv MK and DE Aromat consisting of six milk factories in Chernigiv, Sumy, Khmelnytsk and Kiev region.

In 2004 the Group acquired control over JSC Khladocombinat #4 Kiev and PE Prometey consisting of six milk factories in Khmelnytsk, Chernigiv and Lviv region.

In 2005 the Group acquired control over CSC Bilopilsky syrzavod, JSC Konotopsky molzavod, JSC Glukhiv maslosyrzavod, JSC Okhtyrsky syrkombinat", JSC Vasilevsky syrzavod, JSC Romensky molochniy kombinat in Sumy region.

In 2007 the Group acquired Moldim Ltd in Dnipropetrovsk region and JSC Transportnik in Kyiv, so as LTD Moloko Polissia, LTD Stugna-Moloko, LTD Trubizh-Moloko, JSC KMZ#1, JSC Chernigiv MZ, CSC Gorodnia MZ, LTD Iskra, LTD MKP Revers, LTD Agrosvit, LTD Molochni vyroby.

On July 13, 2007 Milkiland N.V. was incorporated under Dutch law with an issued and paid-up capital of EUR 18,000 divided into 18,000 shares of EUR 1 each. Later the authorized and paid up capital was increased to € 90.000 as per January 17, 2008 and to € 2.500.000 as per June 9, 2008.

The principal activity of the Company is to act as an intermediate holding. On May 23, 2008 the Company has been converted from a private limited liability company (BV) into a public limited liability company (NV). Now the Company names as Milkiland N.V.

On January, 2008 the Group accomplished purchasing of 75,23% of shares of JSC Ostankinsky Dairy Combine from a third parties having paid 41,000 thousand USD at all.

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland NV is obliged to send to the shareholders-owners of the remaining 673 697 ordinary registered shares of the Company, that makes 24,77% of all issued ordinary registered shares of the Company, a public offer about acquisition of their shares (further on the text as "Obligatory offer"). A bank guarantee must be attached to the Obligatory offer.

Thus, Milkiland NV is obliged to purchase other 673 697 ordinary registered shares of the Company from the shareholders for the total sum of 327 820 000 (three hundred twenty seven million eight hundred twenty thousand) rouble, fixated in Russian rouble and which will vary in euro, that makes EUR 9 123 039,41 (nine million one hundred twenty three thousand thirty nine euro, forty one eurocents) (the rate of Central Bank of Russian Federation dated 31st of December 2007 was 1 euro to 35 rouble 93 kopeyka).

At present time Milkiland NV carries on contract negotiations with Russian banks about the order and conditions of issuing of the bank guarantee.

According to the Preliminary contract on sale and purchase of corporate rights of the Daughter Enterprise "Milkiland-Ukraine" on December 3, 2007 and the Contract on sale and purchase on January 31, 2008, Milkiland Corporation (Panama) has sold 100% of corporate rights of Daughter Enterprise "Milkiland-Ukraine" to Milkiland

B.V. (Netherlands), which is considered full participant of this enterprise after the state registration of change of the Articles of Association of the enterprise. The state registration took place at March 4, 2008. The purchase price was USD 1 980 198.

Recalculation adjustment appears during translation of financial statements and results of DE Milkiland Ukraine and subsidiaries, which account for their activity in US dollars.

According to the Preliminary contract on sale and purchase on 13.12.2007, the Contract on sale and purchase on 30.01.2008, and amendments to these contracts Axel Management Inc. has sold 100 shares of Milkiland Corporation to Milkiland B.V. (The Netherlands). The purchase price is 2 410 000 € in USD by the official rate established by the European Central Bank on the date of payment, that made 3 538 603 USD. Mentioned shares were already paid up on December, 13, 2007.

According to the Share Register of Milkiland Corporation, Axel Management Inc. has transferred 100 shares to Milkiland B.V. (The Netherlands) as of 31.01.2008.

Consolidated financial statements include financial statements of Milkiland N.V. (Dutch company), JSC Ostankino Dairy Combine, Milkiland Corporation, DE Milkiland Ukraine and subsidiaries stated below for the year 2008 and two preceding years.

	% of equity interest
DE Borznyanskiy molzavod	100.0
LTD Mirgorodsky syrorobny kombinat	100.0
DE Milkiland Ukraine	100.0
LTD Molgrup	100.0
DE Aromat	100.0
PE Prometey	100.0
PE Ros’	100.0
LTD Molprod	100.0
LTD Syr-Trading	100.0
LTD UMD	100.0
LTD Molochny pan	100.0
LTD Magazyn Moloko	100.0
LTD Moloko Polissia	70.0
LTD Malka-trans	100.0
JSC Transportnyk	70.3
LTD Moldim	100.0
LTD Stugna-Moloko	100.0
LTD Trubizh-Moloko	100.0
LTD Iskra	68.0
JSC KMZ#1	100.0
JSC Chernigiv MZ	100.0
CSC Gorodnia MZ	91.4
LTD MKP Revers	100.0
LTD Agrosvit	76.0
LTD Molochni vyroby	100.0

On the date of this report LTD Lvivskiy molochniy kombinat is under the procedure of liquidation. Taking into consideration that the share of the Company in this entity is 38%, a 100% reserve was counted for all assets and liabilities of LTD Lvivskiy molochniy kombinat, as well as for all investments of the Company in LTD Lvivskiy molochniy kombinat.

Business

The milk factories are located in Chernigiv, Kyiv, Ternopil, Lviv, Sumy, Poltava, Dnipropetrovsk and Khmelnytsk region of Ukraine. The main factories are Mensky Syr, Romensky MK and Myrgorod SK, which are located in Chernigiv, Sumy and Poltava regions accordingly. The factories purchase milk from local farmers and produce cheese, butter, powdered milk and casein.

2. Presentation of financial statements

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). Financial accounting most of the Group’s companies is carried out according to the legislation and Ukrainian National Accounting Standards (further in the text - NAS). Financial accounting of JSC Ostankino Dairy Combine is carried out according to the legislation and Russian National Accounting Standards. Effective in Ukraine and Russia NAS differ from generally accepted principles and standards of IFRS. Respectively, some changes and amendments were made to the consolidated financial statements in order for them to comply with IFRS.

These consolidated financial statements are prepared on the historical cost basis.

Functional and presentation currencies

Milkiland N.V. is a Dutch company. For that reason the financial statements of the subsidiaries are translated to EUR.

The Consolidated Financial Statements (further the “financial statements”) have been prepared on a historical cost basis, except for land and buildings, which have been measured at fair value. The amounts in these financial statements are disclosed in EUR.

For translation the all amounts in balance sheet (except equity) into EUR were used the following rates:

UAH/USD:

As at 31.12.2005 - 5.0500
As at 30.09.2006 – 5.0500
As at 31.12.2006 - 5.0500
As at 30.09.2007 – 5.0500
As at 31.12.2007- 5.0500
As at 31.12.2008- 7.70

USD/EUR

As at 31.12.2005 – 1.1797
As at 30.09.2006 – 1.266
As at 31.12.2006 – 1.3170
As at 30.09.2007 – 1.4179
As at 31.12.2007 – 1.4721
As at 31.12.2008 – 1.4097

RUB/EUR

As at 31.12.2007 – 35.9332
As at 31.12.2008 – 41.4411
Profit and loss accounts were translated using *averaged* rates:

UAH/USD:

for the period ended December 31, 2006 year - 5.0500
for the period ended December 31, 2007 year - 5.0500
for the period ended December 31, 2008 year – 5.2499

USD/EUR

for the period ended December 31, 2006 year - 1.2573
for the period ended December 31, 2007 year - 1.3733
for the period ended December 31, 2008 year - 1.4767

RUB/EUR

for the period ended December 31, 2008 year - 36.4364

Equity was translated into EUR using historical rates.

Material estimates and assumptions

Preparation of IFRS consolidated financial statements demands from the Group management development of estimates and assumptions that effect assets and liabilities, income and expenses of the Group stated in the financial statements as well as contingent assets and liabilities. Due to inaccuracy inherent to such estimates and assumptions factual results included to statements of future periods might differ from these estimates.

3. Significant accounting policies

Consolidation and combination principles

Consolidated financial statements include financial statements of Milkiland Corporation, DE Milkiland Ukraine, Milkiland NV, since 01 January -- JSC Ostankino Dairy Combine, and other companies where the Group directly or indirectly has majority of voting shares or control such a company in another way.

The Group management considers that presentation of financial statements is necessary in order to achieve overall presentation of financial position and operating results of the Group.

Financial statements of subsidiaries are prepared for the same reporting periods as the parent company. Where necessary, adjustments were included in the financial statements of subsidiaries in order for the accounting policies to comply with those of the Group.

Shares of minority shareholders in net assets of consolidated subsidiaries are reflected in the reporting independently from the Group equity. The minority shareholders share is initially computed proportionally to their share in the fair value of net assets, liabilities and contingent liabilities at the date of a subsidiary acquisition. Minority shareholders shares at the end of the reporting period include shares of mentioned shareholders at the date of initial merger of the companies and minority shareholders' shares in changes in equity after that date. Losses exceeding the minority shareholders, share in the equity of a subsidiary are reported as losses of the Group except for the cases when minority shareholders are obliged and have the opportunity to contribute additional funds to the equity of subsidiaries in order to cover incurred losses.

Acquisition of subsidiaries is accounted for at the acquisition method. Acquisition cost is defined by total fair value of assets, undertaken liabilities and/or shares issued by the group at the date of acquisition in exchange for the control over the company being acquired plus any direct acquisition costs. Identifiable assets, liabilities and contingent liabilities of the company being acquired that meet the terms of reflection in accordance with IFRS 3 are reported at the fair value at the acquisition date except for non-current assets (or group of assets subject to disposal) classified as those held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", which are recognized and assessed at the fair value net of sales expenses.

Financial results of acquired or disposed during a year subsidiaries are included into the consolidated Income statement starting from the acquisition date or up to the date of sales respectively.

All intragroup transactions, relevant balances and unrealized income and losses from transactions have been eliminated from the consolidated financial statements.

Investments in affiliates

Affiliate is a company upon which the Group has a significant effect and is neither subsidiary nor a joint venture. Significant effect is participation in development of financial and economic policy, but not full control or joint activity in such processes. Assets and liabilities as well as financial results of subordinate companies are included in these financial statements under the equity method except when investments are classified as considered for sale and accounted under IFRS 5. Under the equity method financial investments to affiliates are stated in the consolidated balance sheet at acquisition cost including adjustment of changes share in the Group in net assets of an affiliate after acquisition less impairment amount. Losses of an affiliate exceeded investments of the Group in such enterprise (including all long-term investments that are the part of the General Group's investments to such company) are not recognized in the Group's consolidated reporting.

Excess of acquisition cost over the cost of the Group's share in fair value of identified assets, liabilities and commitments of an affiliate at the acquisition date are recognized as the goodwill. The goodwill is included into the carrying amount of investments to an affiliate and analyzed as for impairment. Any exceeding Group's share in fair value of assets, liabilities and commitments of an affiliate after revaluation over acquisition cost and immediately recognized in the income statement.

Non-realized income and losses resulted from transactions with an affiliate are to be excluded proportionally to equal share of the Group in capital of affiliates except when non-realized losses testify to impairment of a transferred asset.

Goodwill

Goodwill as a result of a subsidiary acquisition is recognized as an asset and assessed as the amount exceeding the acquisition cost over the group's share in the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary or affiliate at the acquisition date. Goodwill as a result of an affiliate acquisition is included in the carrying amount of investments to an affiliate. Goodwill is initially recognized as an asset during the primary evaluation, which is further adjusted to the impairment amount.

For the impairment testing the goodwill is allocated to each cash generating structural unit of the Group it relates. Cash generating units to which the goodwill is distributed are subject to testing for impairment each year or even more often whenever the indications of their impairment appear. If the recoverable amount for a cash generating unit is less than its current amount losses from impairment are initially reported in the goodwill related to this unit and then in the rest of assets of this unit proportionally to their carrying amount. Goodwill impairment losses cannot be recovered during the following periods.

Recoverable amount of cash generating units is defined on the basis of calculation of their utilization cost in the company economic activity. Key assumptions are discount rates, growth indexes, estimated changes in sale prices and direct costs for the period. The Management estimates discount rates applying rates before taxation reflecting current market expectation as to the cost of money in time and specific risk related to the cash generating units. Growth indexes are based on growth forecasts with respect to a branch as a whole. Changes in sale prices and direct expenses are based on previous experience and expectations regarding future changes in the market.

Property, plant and equipment

Equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of spare parts of the equipment when that cost is incurred, if the capitalization criteria are met.

Land and buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Revaluations are performed frequently enough to ensure that the fair value of a revaluated asset does not differ materially from its carrying amount.

Revaluation surplus is attributable to increase of revaluation assets fund that is included in capital of the balance sheet except when such surplus restores decreasing cost of this asset resulted from the previous revaluation if negative revaluation of such asset was recognized in the income statement. In the latter case increase of the asset's cost is recognized in the income statement. Loss from revaluation is recognized in the income statement except when loss directly decreases positive revaluation of the same asset that was previously recognized in the capital in the balance sheet. In the latter case negative revaluation is referred to decrease of fund of assets revaluation.

The difference between amortization calculated on the basis of revalued carrying amount of an asset and amortization calculated on the basis of primary cost of an asset is transferred annually from fund of assets revaluation to retained earnings. Besides accumulated amortization at the revaluation date is excluded with simultaneous reducing gross carrying amount and then net amount surpluses to revaluated cost of the asset. During disposal of an asset the revaluation fund referred to certain asset sold is transferred to the retained earnings.

Construction in progress includes expenses related directly to construction of fixed assets including accompanying re-allocation of variable overheads related directly to cost of construction. Amortization of such assets as well as other items of property is begun since put into operation.

Income or loss resulted from disposal of any asset estimated as difference between sale profit and depreciated cost of an asset is stated in the income statement.

During each capital repair relevant costs are recognized as cost of equipment if all criteria of capitalization of costs are observed.

Writing off of fixed assets from the balance sheet is carried out during retirement or when in future there are no economic benefits from using or retirement of such asset. Income and losses resulted from write off of the asset (calculated as difference between net proceedings from retirement and carrying amount of asset) is included in the income statement for the reporting period when the asset was written off.

Depreciated cost and useful life as well as the amortization methods are revised and adjusted if necessary at the end of each financial year.

Expected useful lives for key groups of property, plant and equipment are the following:

Groups of property, plant and equipment	*Useful lives, years*
Buildings and constructions	20-40
Machines and equipment	4-7
Other	1-6

Investment properties

Investment properties are measured initially at cost, including acquisition, construction costs and other related expenses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the capitalization criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to the investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible assets

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

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

Intangible assets with definite lives are amortized 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 finite useful life are reviewed at least at each financial 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 finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

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

Non-current assets held for sale

Non-current assets held for sale are classified as such when their cost is to be compensated by sale of these assets but not further exploitation. This term can be fulfilled when assets are ready to immediate sale and they will be sold for sure. Management should have intention to sale such assets during one year.

Non-current assets classified as assets for sale are stated at lower of current and fair cost sale less sale expenses.

Inventories

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

Finished goods are valued at the FIFO method. Average-weighted cost method is used for accounting other inventories.

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 appropriate overheads in the ordinary activity of the Company.

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 consolidated balance sheet include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus expenses from bargain except financial instruments estimated at fair value recognized in the income statement. Financial instruments are stated in balance sheet at the moment of bargain in respect of 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 losses its rights or repays liabilities related to this financial instrument. When financial asset is written off difference between received and accrued compensation and carrying amount is recognized in the consolidated income statement. When financial liability is written off the difference between paid or accrued compensation and current carrying amount is recognized in the income statement.

Financial investments

Financial investments can be classified in the following way:

Investments held-to-maturity;

Financial assets at fair value through profit or loss;

Available for sale.

Financial investments to debt securities with fixed income and mature date which the Group intends to sell and is able to hold till mature except for loans provided and receivables of the Group are classified as “held-to-maturity investments”. Financial investments held to maturity are accounted for at amortized cost using effective interest rate method less impairment reserve. Amortization of discount or premium when securities “held-to-maturity” are acquired is recognized as interest income during the term of repayment. Securities held to maturity are stated as capital assets except when repayment is expected during 12 months after the reporting date.

Financial investments assessed at fair value with recognition of change in the income statement include investments for sale and investments classified at primary recognition as instruments reported in the accounting at fair value with its change recognition in the income statement.

Any other financial investments except for loans and receivables of the Group are classified as “available for sale”.

Financial investments assessed at fair value. Financial investments available for sale are stated further in the balance sheet at fair value calculated on the basis of market quotation at the date of financial statements excluding operating expenses that might be resulted from the sale or retirement. Income and expenses related to changes of fair value of securities accounted for at the fair value with recognition of changes in the income statement are stated in the income statement for the period. Income or losses received at revaluation of fair value of investments available for sale are stated as provision for revaluation of investments as equity up to their retirement. At that accumulated profits or losses previously recognized in the equity are stated in the income statement.

When reducing fair value of investments for sale was reported in the equity but some objective factors had appeared that confirm impairment of investments then accumulated loss stated in the capital should be referred to losses in the income statement even if there were no retirement of investments.

Financial investments without quotations in an active market and which fair value can not be estimated reliably are stated on the basis of the acquisition cost.

Loans provided

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash in banks and cash desks, bank deposits and high liquid contributions with mature up to three months that can be easily converted to respectful cash funds and which change risk is not significant.

Credits and loans received

All credits and loans are initially recognized at fair value of received amount less expense related to receiving. After primary recognition interest bearing credits and loans are assessed at amortized cost under the effective interest rate method. Financing costs including premiums paid during settlements or repayment are accounted under the accrual method and added to the current carrying amount of an instrument if they were not paid in the period when they incurred. Income and expenses are recognized in the income statement when liabilities are derecognized as well as during amortization process.

Trade and other payables

Trade and other payables are stated at nominal cost.

Lease

Lease of fixed assets, when the Group obtains all significant risks and profits resulted from property right, are classified as the financial lease. All other types of lease are classified as the operational lease.

Rental payments under operational lease agreements are transferred to financial results in the respective period.

Assets under financial lease agreements are recognized as the Group's assets at fair value at the acquisition date or at cost of minimal lease payments at the same date if they are lower than fair value of an asset. Respective liabilities to a leaser are stated in the consolidated balance sheet as financial lease liabilities. Financing costs – difference between total lease liabilities and fair value of acquired assets are referred to financial results during a lease term in order to provide constant interest rate at depreciated cost of liabilities for each accounting period.

The assets under financial lease agreements are amortized during estimated useful life or during a lease term if this term is shorter. If there is assurance that the leaser obtains property right for leased assets before the end of the lease term then amortization of assets is calculated during the useful life.

Net investments to the financial lease are gross investments to the financial lease less non-received financial income.

Gross investments to lease are minimal payments in the financial lease from point of view of a lessor and any non-guaranteed depreciated cost. Minimal lease payments are the payments during the whole lease term which a leaser is liable to fulfill net payments of services and taxes paid by a lessor under compensation terms.

Non-received financial income is calculated as difference between gross investments to lease and their discounted cost.

Interest rates considered in the lease agreement is a discounted rate when at the beginning of a lease term total discounted cost of minimal rental payment from the point of view of a lessor and non-guaranteed depreciated cost is equal to the fair value of a lease object.

Non-guaranteed depreciated cost is a part of depreciated cost of a leased asset towards which a lessor does not have guarantees or has guarantees only from the related party.

Fair value of an asset transferred to the financial lease is the amount obtainable from an asset exchange or sufficient for repayment of liabilities between the parties that are well-informed and having an intent to perform such operation.

Provision for probable losses from the financial lease are recognized in the income statement and accounted for as reducing investments to the financial lease.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Trade revenue is stated at fair value less discounts and other taxes.

Financial lease

Revenue recognized when the financial lease has been commenced is reported at the fair value of an asset or, if it is lower, at the current cost of minimal rental payments calculated at the effective interest rate of compensation. Financial income is allotted to the financial lease term so that to provide for constant rate of return to unpaid balance of net investment. Financial lease income is not recognized when delinquency of lease payments comprises over 60 days.

Operating lease

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.

Interest income

Interest income is recognized in the period it has been gained based on the principal debt amount and the effective interest rate resulting during discounting the future cash inflow to the current cost of a respective asset.

Dividend income

Dividend revenue is recognised when the shareholders' right to receive the payment is established.

Other services

Revenue from sale of services is stated in the period when such services were rendered after completion concreted transaction estimated on the basis of factually rendered service proportionally to a full scope of services that are to be rendered.

Borrowing costs

Borrowing costs are recognized as expenses when they incurred.

Foreign currency transactions

Ukrainian hryvnya is the functional currency. Transactions in currencies other than hryvnia are treated as foreign currency transactions.

Foreign currency transactions are stated under the rate effective at the date of transaction. Monetary assets and liabilities denominated in foreign currency are recalculated at the exchange rate at the reporting date. All exchange differences are stated in the consolidated income statement.

Non-monetary items are assessed on the historical cost in foreign currency, recalculated under rates valid at primary date.

Impairment of assets

At each reporting date the Group assesses carrying amount of property, plant and equipment as well as intangible assets in order to find out whether any evidences for impairment of assets exist. If so, recoverable cost of assets is calculated in order to assess impairment loss (if such is available). When it is not possible to assess recoverable cost of an asset the Group estimates recoverable cost of unit generating cash flows where such asset is attributable.

Recoverable amount is assessed as the higher index of fair value of an asset less sale costs and cost generating from using in economic activity of the Group. While assessing cost of using supposed cash flow is discounted to current value using rates before taxation that indicated current market value of cash and inherent specific risks to this asset.

If recoverable amount of an asset (or cash generating unit) according to estimations indexes is less than the current amount then the current amount of an asset (cash generating unit) should be discounted to this index. Impairment losses are recognized in the income statement except when impairment is referred to assets stated at revaluation cost when impairment amount is referred to revaluation reserve.

If impairment losses are recovered in future period current value of asset (cash generating unit) should be increased to new recoverable amount but in such a way that recoverable amount of such asset does not exceed discounting cost in previous periods. Recoverable impairment amount is recognized in the income statement except when impairment is referred to assets stated at revaluation cost when recoverable impairment amounts are referred to revaluation reserve.

Value added tax (VAT)

VAT during sale should be paid to the tax authorities during receiving payment from customers. 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 are allowed to offset VAT. VAT in respect of acquisitions and sales when settlement is completed at the balance sheet date (deferred VAT) is stated in the balance sheet by separate amounts as current assets or liabilities. If the provision was formed to receivables this provision is reported in full measure including VAT. Deferred liability on VAT is still recognized in the financial accounting until receivables are repaid or written off in order provided by the financial accounting rules.

Income tax

Income tax is calculated in accordance with the Ukrainian Russian and Dutch legislation relatively. Tax is calculated on the basis of financial results for the current year adjusted to income and expenses excluded during calculation of this tax.

Deferred income tax requirements and liabilities are provided using the balance sheet liability method for the temporary differences arising between the tax bases and the data for financial reporting purposes. Deferred tax liabilities are generally recorded using all temporary differences that increase taxable income and deferred tax requirements are stated including future income appropriate to use appeared tax requirements. The Group accounts deferred tax requirements and liabilities when they are referred to income taxes withdrawn by the same tax body and the Group intends to offset future tax requirements and liabilities.

Deferred taxes are calculated under rates that should be applied in the sale period of an asset or repayment of indebtedness. They are stated in the income statement except when they relate to items directly related to equity; in this case they are stated in the equity.

Benefits to employees

Salary, social security expenses, vacations, hospital services, premiums and non-monetary payments are accrued in the period when such benefits were provided to the Group's staff.

Pension provisions

The Group's operating enterprises contribute to the pension Fund of Ukraine, medical and social insurance funds for all their employees. These contributions are reported in financial results in the period they were incurred.

Dividends

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

Provisions

Provisions are recognized when the Group has 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 of the provisions to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Governmental subsidies

Governmental subsidies are recognized when there is reasonable assurance that they are to be received and all accompanying terms fulfilled. If subsidy is provided in order to finance certain expenses it should be recognized as income in the same periods as respectful expenses that it should compensate on a regular basis. If subsidy is issued in order to finance an asset then it is recognized as deferred income. If the Group receives subsidies in non-monetary form then assets and subsidy are accounted at nominal cost and stated in the income statement during assumed useful life of an asset by equal annual parts.

Operating environment of the group

At the date of approval of its reporting the Group operates in an unstable environment associated with the global economic recession. Stabilization of the economic situation will, to a great extend, depend upon the efficiency of fiscal and other measures taken by the local governments. It is impossible to reliably estimate the effects of the present economic situation on the Group's liquidity and revenues, stability and structure of its operations with customers and suppliers. As a result there is a significant uncertainty concerning the Group's ability to realize its assets in the normal course of business and to settle its debts as they mature. These financial statements do not include any adjustments that may appear as a result of such uncertainty. These adjustments will be informed of as soon as they are known or reliably estimated.

Offsetting financial instruments

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

4. Sales

(in 1.000 EUR):	***2008***
Whole-milk products	129 706
Cheese	87 410
Dry milk products	25 336
Butter	23 076
Ice-cream	2 317
Other products	4 662
Total	**272 508**

Net sales except VAT can be divided as follows:

(in 1.000 EUR):

Country	**Sum of net sales**	**% of sales**
Russia domestik	105 158	38.6%
Ukraine domestic	100 297	36.8%

Russia	44 736	16.4%
Kazakhstan	7 617	2.8%
Holland	6 051	2.2%
Azerbajan	893	0.3%
Germany	762	0.3%
Armenia	758	0.3%
Denemark	720	0.3%
Singapure	616	0.2%
Belorussia	308	0.1%
Italia	148	0.1%
Moldova	123	0.0%
Poland	101	0.0%
Afganistan	19	0.0%
Turkey	-	0.0%
USA	-	0.0%
France	-	0.0%
Other	4 202	1.5%
Total	**272 509**	**100%**

6. Cost of goods sold

(in 1.000 EUR):

	2008
Whole-milk products	92 075
Cheese	49 905
Dry milk products	22 714
Butter	17 755
Ice-cream	2 015
Other products	1 861
Total	**186 325**

Milkiland Ukraine	***2008***
Raw material	73 775
Labour and social insurance	11 052
Transport expenses	10 484
Storage, logistics	6 250
Gas	4 416
Electricity	2 775
Cost of Goods	1 693
Other	8 900
Total	**119 344**

Ostankino Dairy Combine	***2008***
Raw materials and mixtures	44 791
Packaging	10 948
Merchandise	4 032
Labour	2 796

Public utilities	2 709
Social insurance	668
Repairs of equipment	247
Other	791
Total	**66 981**

6) Selling, general and administrative expenses

(in 1.000 EUR):

	2008
Labour and social insurance	14 776
Transportation	9 619
Representative charges	7 133
Utilities	5 063
Marketing and advertising	3 679
Property, plant and equipment rent	3 011
Taxes and other charges	2 888
Bank commission	1 704
Service of security and other	1 334
Legal service	991
Doubtful debts	773
License fees	614
Property insurance	383
Communication	363
Auditing service	167
Office supplies	135
Other expenses	1 790
Total	**54 422**

7. Minority interests

(in 1.000 EUR):

	As at December 31, 2007	Minority's share of the financial result	Currency translation result	As at December 31, 2008
LTD Moloko Polissia	302	41	(102)	241
JSC Transportnyk	24	1	(7)	18
LTD Iskra	338	64	(125)	277
JSC Chernigiv MZ	376	50	(204)	222
CSC Gorodnia MZ	69	-	(9)	60
LTD Agrosvit	75	25	(33)	67
JSC Ostankino Dairy Combine	8 469	960	(1 214)	8 215
Total	**9 653**	**1 141**	**(1 694)**	**9 100**

8. Property, plant, equipment and intangible assets:

(in 1.000 EUR):

	Land and buildings	**Plant and equipment**	**Constructions in progress**	**Intangible assets**	**Other assets**	**Total**
Acquisition cost						
December 31, 2007	**77 260**	**38 747**	**10 392**	**319**	**9 517**	**136 235**
additions	21	6 502	2 396	184	1 318	**10 421**
revaluating of assets*	23 279					**23 279**
disposals		(2 039)	(2 176)	(2)	(83)	**(4 300)**

transfers	574	2 617	(3 191)			-
currency adjustment	(16 472)	(9 040)	(1 056)	(30)	(3 329)	**(29 927)**
December 31, 2008	**84 662**	**36 787**	**6 365**	**471**	**7 423**	**135 708**
Accrued depreciation						
December 31, 2007	**(11 508)**	**(11 020)**		**(104)**	**(7 693)**	**(30 325)**
additions	(3 026)	(3 610)		(60)	(2 644)	**(9 340)**
revaluating of assets*	2 409	1 095			2 638	**6 142**
disposals		1 213		2	49	**1 264**
currency adjustment	3 350	2 281		31	3 204	**8 866**
December 31, 2008	**(8 775)**	**(10 041)**		**(131)**	**(4 446)**	**(23 393)**
Net cost						
December 31, 2007	**65 752**	**27 726**	**10 392**	**216**	**1 824**	**105 910**
December 31, 2008	**75 887**	**26 746**	**6 365**	**340**	**2 977**	**112 315**

9. Inventories

(in 1.000 EUR):

	December 31, 2008	**December 31, 2007**
Raw materials (at cost) and Production in process	12 263	0
Finished goods (at net realisable value)	4 702	0
Total	**16 965**	**0**

10. Trade and other receivables

(in 1.000 EUR):

	December 31, 2008	December 31, 2007
Trade accounts receivable	15 348	208
Advances paid	10 360	
Advances paid for fixed assets	-	
Other account receivable	7 332	6.690
Less - doubtful debts	(5 877)	
Total	**27 163**	**6.898**

11. Cash and cash equivalents

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

(in 1.000 EUR):

	December 31, 2008	December 31, 2007
Bank accounts in USD	995	
Bank accounts in EUR	1	19
Bank accounts in RUR	930	25.151
Bank accounts in UAH	1 159	
Cash	96	
Total	**3 181**	**25.170**

12. Taxes receivable

(in 1.000 EUR):

	December 31, 2008	December 31, 2007
VAT	4 199	16
Income tax	59	
Other taxes	656	
Total	**4 914**	**16**

13. Accounts payable

(in 1.000 EUR):

	December 31, 2008	December 31, 2007
Trade accounts payable	9 941	43
Advances received	5 096	
Accounts payable on the operations security-related	-	
Accounts payable for fixed assets	-	
Other accounts payable	3 815	
Total	**18 852**	**43**

14. Taxes payable

(in 1.000 EUR):

	December 31, 2008	December 31, 2007
VAT	80	0
Income tax	341	0
Other taxes	593	0
Total	**1 014**	**0**

15) Interest bearing loans and borrowings

Bank loans as of Decmber 31, 2008 consisted of the following:

Company name	Currency	Maturity date	Interest rate	Outstanding balance, in 1.000 EUR
Long-term:				
DE “Milkiland - Ukr”	EUR	30.04.2012	12.46	1 026
DE “Milkiland - Ukr”	USD	30.09.2013	11.50	5 877
DE “Milkiland - Ukr”	USD	24.09.2014	10.80	2 950
LTD "MalKa-Trans"	USD	30.09.2013	10.10	5 182
PE "Ros"	USD	30.09.2013	10.10	9 410
DE "Aromat"	USD	24.09.2014	10.80	417
PE "CC "Prometey"	USD	24.09.2014	10.80	417
PE "Ros"	USD	24.09.2014	10.80	417
DE “Milkiland - Ukr”	USD	24.09.2014	10.80	394
Iskra	UAH	20.07.2010	17.00	6
Iskra	UAH	24.10.2013	24.00	193
LTD "Moloko Polissya"	UAH	28.02.2011	19.00	28
PE "CC "Prometey"	EUR	26.03.2010	16.00	1 000
PE "CC "Prometey"	UAH	23.04.2010	18.50	737
Ostankino Dairy Combine	RUR	26.06.2008	14.5 - 16.0	2 389
				30 442

Company name	Currency	Maturity date	Interest rate	Outstanding balance in 1.000 EUR
Current portion of long-term:				
DE “Milkiland - Ukr”	EUR	31.12.2009	12.46	488
DE “Milkiland - Ukr”	USD	31.12.2009	11.18	567
DE “Milkiland - Ukr”	USD	31.12.2009	10.80	621
LTD "MalKa-Trans"	USD	31.12.2009	10.10	590
PE "Ros"	USD	31.12.2009	10.10	1 079
DE "Aromat"	USD	31.12.2009	10.80	53
PE "CC "Prometey"	USD	31.12.2009	10.80	53
PE "Ros"	USD	31.12.2009	10.80	53
				3 504
Short-term:				
DE “Milkiland - Ukr”	USD	31.08.2009	12.20	3 512
DE “Milkiland - Ukr”	USD	05.11.2009	15.00	9 247
DE “Milkiland - Ukr”	USD	29.03.2009	10.83	14 158
DE “Milkiland - Ukr”	USD	30.09.2009	11.50	3 576
LTD “Moloko Polissya”	UAH	09.10.2009	22.00	1 935
LTD “Mirgorodsky SK”	UAH	03.07.2009	20.00	2 303
JSC Chernigiv	UAH	03.07.2009	21.00	87

LTD "Moloko Polissya"	UAH	03.03.2009	19.00	42
DE "Aromat"	UAH	25.12.2009	24.00	6 819
DE "Aromat"	UAH	25.02.2010	24.00	1 382
Iskra	UAH	14.05.2009	19.50	46
Iskra	UAH	30.06.2009	22.00	41
"Milkiland Corp"	USD		18.00	5 427
DE "Milkiland - Ukr"		overdraft	16.00	2 466
Ostankino Dairy Combine	RUR	6-12 month	10 - 23	13 526
				68 073
Total debts				**98 515**

16. Non-operating other income (expenses)

(in 1.000 EUR):

	2008
Writing off non-current assets	(2 093)
Gain/(loss) from realization of inventory	(896)
Fines and penalties	(304)
Obsolescence of inventories	(278)
Net income/(loss) from sales of non-current assets	(102)
Other profits from financial operations	4
Profit from realization of financial investments, net	97
Other gains / losses	(684)
Total	**(5.153)**

17. Subsidies

Agricultural companies of Milkiland-Group receive government subsidy from VAT paid for their products by customers. Mentioned subsidy is set according to the Law of Ukraine "About VAT" and procedure of using of the subsidy is set by Ukrainian Government every year.

18. Income tax

Russian segment

In November 2008 the Federal Law on amendments to the Russian Tax Code enacted the decrease in corporate profit tax rate from 24% to 20%, effective from 1 January 2009. This tax rate was applied to determine the deferred tax assets and liabilities as of 31 December 2008.

The income before taxation for financial reporting purposes is reconciled to the tax expense as follows:

	2008
Profit before taxation	3 709
Theoretical tax charge at statutory rate of 24%	890
	(1 142)
Change in deferred taxes resulting from reduction in tax rate	
Tax effect of items which are permanently not deductible or assessable for taxation purposes:	**86**
Income tax expense (benefit)	**(166)**

Ukrainian segment

	2008
Profit before income tax and minority interests	(15,644)
Implied tax charge at statutory rate of 25%	(3,910)
Expenses that do not reduce taxable profit	6,565
Income tax expense	**2,655**

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.

Dutch segment

	2008
Corporate Income tax	1
Consolidated income tax expenses	**2 488**

19. Finance leases payable

Minimum lease payments under finance leases and their present values are as follows:

	2008
Finance leases liabilities-minimum lease payments	
	685
Not later than 1 year	685
Later than 1 year and not later than 5 years	-
Future finance charges on finance leases	(78)
Present value of finance leases liabilities	607
Not later than 1 year	607
Later than 1 year and not later than 5 years	-

The Company leases machinery and equipment for a period of 36 months with an option to acquire leased assets at contract value at the end of the lease. Contract value at the end of the lease is determined as net-book value for the last calendar day of the month in which the cancellation of contract takes place (plus VAT charge on this sum), increased for the sum of the lease payables for the period from inception to cancellation of contract and decreased for the sum of finance lease payments.

20. Geographic Segments information

Statement of Comprehensive Income for geographic segments for period ended December 31, 2008

(in 1.000 EUR)	Notes	Ukraine	Russia	Holland	Adjustments	Consolidated
Sales	4	173 234	105 158	-	(5 884)	272 509
Cost of goods sold	5	(119 344)	(72 865)	-	5 884	(186 325)
Gross Profit		**53 890**	**32 294**	**-**	**-**	**86 183**
Subsidies	17	389	-	-	-	389
Selling, general and administrative expenses	6	(32 801)	(21 167)	(455)	-	(54 423)
Operating Income		**21 478**	**11 127**	**(455)**	**-**	**32 150**
Foreign exchange gains/(loss), net		(14 187)	-	(1 632)	-	(15 819)
Interest income		21	1	9	-	31
Interest expenses		(12 774)	(2 279)	-	-	(15 053)
Depreciation		(6 913)	(2 752)	-	-	(9 665)
Other income/(expenses)	16	(2 766)	(2 388)	(2 060)	-	(5.153)
Profit before taxation		**(15 139)**	**3 709**	**(4 139)**	**-**	**(13 508)**
Income tax expense		(2 655)	166	1	-	(2 488)
Net Profit		**(17 794)**	**3 875**	**(4 138)**	**-**	**(15.997)**
Lucky buy/badwill				23.366		23.366

Attributable to:						
Minority interest	**7**	(181)	(960)	-	-	(1 141)
Currency Translation Adjustments	**17**	(8.313)	(4 899)	1 738	-	(11.474)
Revaluation of Fixed Assets		22 758	-	-	-	22 758
Total Comprehensive Income		**(3.530)**	**(1 984)**	**20.966**	**-**	**17.511**

Ukrainian part of geographic segments includes also Milkiland Corporation taking into account that a lot of operations of Milkiland Corporation are historical related to Ukrainian part of business.

Russian part of business includes only JSC Ostankino Dairy Combine and has activity within the frames of Group since January 2008.

Dutch part of Group exercises mainly administrative function.

21. Issued capital and reserves

On December 03, 2007 the shareholders of the company have taken a decision about splitting of the currently outstanding shares into ten (10) shares with a nominal value of ten Eurocent (€ 0,10) each and future issuing of 24 100 000 of ordinary shares, amounting EUR 2 410 000. The Shareholder has pre-paid EUR 2 410 000 for these shares on the basis of the preliminary agreement on issuing and purchase of shares signed on 04.12.2007.

On June 09, 2008 the Company issued 24 100 000 ordinary shares with a nominal value of ten Eurocent (€ 0,10). As at 09 June, 2008 issued capital amounts to EUR 2 500 000

22. Related party disclosure

During the reporting period the Company had related party transactions with Milkiland Corporation (Panama), DE Milkiland Ukraine and. Ostankino Dairy Combine (Russia) as parts of Milkiland Group.

On December, 2007 Myrgorodsky Cheese Combine (subsidiary of DE Milkiland

Ukraine) paid USD 37 million to Milkiland B.V. according to an agreement for the future delivery of equipment and machinery to a cheese producing line.

Later this prepayment was transferred by operations between Myrgorodsky Cheese Combine, Milkiland NV and IK Tabylga (Republic Kirgizstan) in such way that debt of Milkiland NV to IK Tabylga in amount of 37 million USD was formed:

1. by contract #ML-02 dated 03.12.2007 in amount of 13million USD
2. by contract #2008-2 dd 07.05.2008 in amount of 24 million USD.

Hereby total debt of Milkiland NV to Myrgorodsky Cheese Combine was transferred to debt of IK Tabylga to Myrgorodsky Cheese Combine in amount of 37million USD. These operations were eliminated from consolidated financial statements as related party operations.

No interest is due on these debts.

The Company does not act as guarantor of the debt or any other liabilities of related parties.

Related party disclosure refers to all periods presented herein.

Remuneration of the key administrative staff

Remuneration of the key administrative staff is included into administrative expenses of the Income statement and comprises for 2008 the amount of 109 thousand EUR.

23. Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk.

Cash flow and fair value interest rate risk

The group analyses its interest rate exposure on a dynamic basis.

The Group considers the risk of market interest rate change with respect to long-term liabilities with variable interest rate. The Company's policy is aimed at attraction of mixed loans with both fixed and variable rates.

Liquidity risk

Due to the nature of the underlying businesses, group treasury maintains flexibility in funding by

maintaining availability under committed credit lines. Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow.

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Foreign currency risk

Due to significant transaction volumes in Ukraine and Russia the Group can be affected by the exchange rate of EUR, US dollar, Ukrainian hryvnia, Russian rouble.

The Group performs currency transactions as well. These transactions include: acquisitions and sales in currency other than the reporting one – hryvnia or rouble. The Group tries to borrow in currency of sales proceeds recovery that enables to reduce influence of exchange rates fluctuation.

24. Subsequent events

During last quarter of 2008 the Company has affected by dropping down of exchange rates of main operating currencies – Ukrainian hryvnia and Russian ruble. It brings additional risks into business because of stretching of margin but helps also extend export activity, which becomes more profitable in conditions of low domestic currency.

Since December 31, 2008 the Group has attracted the following credits:

Company name	Bank	Date	Currency	Type of loan	Amount in original currency, 1.000	Maturity date	Interest rate, %
DE "Milkiland - Ukr"	JSC DEIB	20.02.2009	UAH	overdraft	14,000	19.08.2009	25.00%
DE "Milkiland - Ukr"	JSC DEIB	26.03.2009	UAH	credit line	53,600	25.03.2010	22.00%
DE "Milkiland - Ukr"	JSC DEIB	18.02.2009	UAH	credit line	16,000	17.02.2010	22.00%
Total					**83,600**		

Since December 31, 2008 the Group has paid up the following credits:

Company name	Bank	Maturity Date	Currency	Type of loan	Amount in original currency, 1.000	Interest rate, %
DE "Milkiland - Ukr"	JSC DEIB	19.02.2009	UAH	Overdraft	30,000	18.00%
LTD "Mirgorodsky SK"	JSC Ukrgasbank	03.07.2009	UAH	credit line	25,000	20.00%
Total					**55,000**	

25. Commitments and Contingencies

Milkiland NV performs major operations in Ukraine through DE Milkiland Ukraine and its subsidiaries and in Russia through JSC Ostankino Dairy Combine. Therefore the Company falls with jurisdiction of the Ukrainian and

Russian Tax Authorities. Taxation systems in Ukraine just as in Russia are subjects to various taxes and duties. Frequent changes of legislation result in its different interpretation creating areas of conflict. All of the actual management of the business activity of Milkiland N.V. in Ukraine and in Russia is performed from the Netherlands.

Tax declarations might be inspected and investigated by numerous state bodies as provided by the effective legislation in order to impose extremely severe sanctions, fines and penalties. These facts create tax risks much more significant than in countries with developed taxation systems.

Management of Milkiland NV believes that it fulfilled all tax legislation requirements. However, there is no absolute guarantee that the Tax administration has the interpretation different from ours. As at December 31, 2008, there were no legal actions from the Ukrainian and Russian tax authorities against subsidiary companies and Milkiland Corporation itself. Future tax burden has not been analyzed in these financial statements.

STATUTORY ACCOUNTS

1. ANNUAL REPORT

2. PRINCIPLES OF VALUATION

Principles of valuation - General

General

The general principle for the valuation of assets and liabilities, as well as the determination of results, is the historical purchase price or manufacturing cost. Unless otherwise stated, assets and liabilities are stated at the values at which they were acquired or incurred.

Foreign currency

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

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

Principles of valuation - Assets and liabilities

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.

Principles of valuation - Income statement

General result

Profit is determined as the difference between net sales and all expenses relating to the reporting period. Costs are determined in accordance with the accounting policies applied to the balance sheet.

Profit is realised in the year in which the sales are recognised. Losses are taken upon recognition. Other income and expenses are allocated to the periods to which they relate.

Revenue

Net sales constitute the proceeds of sales of goods and services to third parties less discounts.

Financial income and expenses

Financial income and expenses relate to interest received or due from and paid or due to third parties and group companies.

Corporate income tax

Taxation on profits is calculated on the reported pre-tax profit or loss, taking into account any losses carried forward from previous financial years, tax-exempt items and non-deductible expenses, and using current tax rates.

BALANCE SHEET AS AT 31 DECEMBER 2008

before appropriation of result

ASSETS (in 1.000 EUR)		31 December 2008		31 December 2007
Fixed assets				
Goodwill		2.060		0
Financial fixed assets		48.137		0
Current assets				
Receivables				
Trade debtors	0		208	
Receivables from group companies	32		0	
Taxes and social securities	28		16	
Other receivables	46		6.690	
		106		6.914
Cash and cash equivalents		38		25.171
Total assets		50.341		32.085

EQUITY AND LIABILITIES (in 1.000 EUR)		31 December 2008		31 December 2007
Shareholders' equity				
Issued and paid-up share capital	2.500		18	
Share premium	0		2.482	
Currency translation reserve	(11.474)			
Revaluation reserve	22.758			
Unappropriated result	6.230		3	
		20.014		2.503
Current liabilities				
Trade creditors	41		423	
Tax and social securities	0		1	
Current liabilities	30.286		29.539	
		30.327		29.582
Total equity and liabilities		50.341		32.085

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in 1.000 EUR)		2008		2007
Revenue		855		208
Other operating expenses	456		205	
Operating expenses		456		205
Operating profit/(loss)		399		3
Financial income	9		6	
Financial expenses	-1.632		-6	
Financial income and expenses		-1.623		0
Provit/(loss) before taxation		-1.224		3
Income tax		0		0
Result of subsidiaries		-15.915		0
Badwill		23.366		0
Provi/(loss) after taxation		6.227		3

NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2008

ASSETS

Fixed assets

Goodwill

The goodwill of EUR 2.060.000 is a result of a subsidiary acquisition and recognized as an asset. Goodwill is initially recognized as an asset during the primary evalution. Impairment testing will be performed annually.

Financial fixed assets

	31-12-2008	31.12.2007
(in 1.000 EUR)		
Participations	48.137	0
Participations		
Ostankino Dairy Combine	24.951	0
Milkiland Ukraine	23.186	0
		0
	48.137	0

Current assets

Receivables

	31-12-2008	31.12.2007
Taxes and social securities		
Value added tax	28	16
Other receivables		
Prepayment on shares	0	6.673
Other	46	16
	46	6.689

EQUITY AND LIABILITIES

Shareholders' equity

(in 1.000 EUR)	Issued and paid-up capital	Share premium reserve	Currency translation reserve	Revaluation reserve	Retained earnings / and unappropriated result for the year	Total
Balance as at 1 Januari 2008	18	2.482			3	2.506
Proposed Result appropriation					6.227	6.227
Issue of common shares	2.482					2.482
Other movements		-2.482	-11.747	22.758		7.929
Balance as at 31 December 2008	2.500	0	-11.747	22.758	6.230	20.014

Issued and paid-up share capital

As at December 2008, the authorized share capital of the Company consists of 50.000.000 shares, each share having a nominal value of EUR 0,10 of which 25.000.000 shares were issues and fully paid.

Statutory reserve

The statutory reserve has to be formed for the currency exchange results on participations.

Current liabilities

Tax and social securities

(in 1.000 EUR)	31-12-2008	31-12-2007
Corporate income tax	0	1

Current liabilities

(in 1.000 EUR)	31-12-2008	31-12-2007
IK Tabylga	24.247	0
Milkiland Corporation	4.040	4.287
Mirgorodsy Cheese Comibe	0	25.134
		118
Accrued liabilities	30.287	29.539

List of interests held

At year end Milkiland N.V. has the following participations:

- DE Milkiland Ukraine (Ukraine), 100%;
- Milkiland Corporation (Panama), 100%;
- Ostankino Dairy Combine (Russia), 75,23%.

Subsequent events

a. Ostankino Dairy Combine

According to the provisions of Russian law On Joint Stock Companies, Milkiland N.V. as an owner of more than 30 per cents of all issued and voting shares has the obligation to send to the shareholders-owners of the remaining 673 697 ordinary registered shares of the Company that makes 24,77%, a mandatory offer to acquire such share thereof. A bank guarantee must be attached to the offer as well as a report of the independent appraiser on the market value of the shares to be purchased.

Thus Milkiland N.V. might be obliged to purchase from the shareholders other 673 697 ordinary registered shares of the Company (or any fraction of them) at price calculated as described below, that makes 486.59 (for hundred eighty six rubles and 59 kopeek) per share or 327 814 223.23 (three hundred twenty seven million eight hundred fourteen thousand two hundred twenty three rubles 23 kopeiki) for 673 697 shares. At Central Bank of Russian Federation rates of exchange RUB/Euro effective on 31st December 2008 (44.4411 rubles per 1.00 Euro), that makes EUR 7 376 375.09 (seven million three hundred seventy six thousand three hundred seventy five Euro 09 eurocents). As for today Milkiland N.V. is still in the negotiating process with the Russian banks that potentially could be involved as the guarantors for the mandatory offer for the acquisition of the remaining shares. The negotiations are planned to be finalized by the end of the year 2009.

b. Milkiland Corporation

As for today according to the Share Register of Milkiland Corp. 100% of the Milkiland Corp. shares owned by Milkiland N.V.. During this year Milkiland N.V. is planning to increase the authorized capital of the Milkiland-Ukraine and to form it through contributing of 100% of Milkiland Corp. shares to Milkiland-Ukraine authorized capital.

NOTES TO THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	***2007***
Financial income and expenses (in 1.000 EUR)		
Financial income		
Interest received and bank charges	9	6
Financial expenses		
Currency result	1.632	6

Badwill

The badwill is a result of the difference between the purchase price of Milkiland Ukraine and the fair value at time of the purchase.

Result of subsidiaries

The result of subsidiaries represent the results of Milkiland Ostankino and Milkiland Ukraine.

Other information

Average number of employees

During 2008 and 2007 no employees were employed on the basis of a full time service contract.

Proposed appropriation of the result after taxes 2008

It is proposed to the General Meeting of Shareholders to add the net-result to the retained earnings. This proposed appropriation of the result (after taxes) has been incorporated into the accounts.

Amsterdam, October 13, 2009

Milkiland N.V.

Director	Director	Director
O. Yurkevych	A. Yurkevych	V. Rekov
Director	Director	
P.I. Yokhym	M. Hamtian	

Approved by the general meeting of shareholders on ………………………………. 2009

BDO CampsObers
Audit & Assurance B.V.

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Telefoon: 076-571 49 00
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To: the General Meeting of Shareholders and the Management of Milkiland N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2008 of Milkiland N.V., Amsterdam , which comprise the consolidated and company balance sheet as at December 31, 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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.

BDO

Matter that affects our opinion

We were not able to obtain sufficient audit evidence whether the carrying amount of a part of property, plant and equipment of DE "Milkiland Ukraine" as at December 31, 2008 in amount of € 14.078 thousand reflects their fair value. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of property, plant and equipment, depreciation charge for the period, accumulated depreciation and income tax expenses and net loss for the year ended December 31, 2008.

Opinion
In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in paragraph above, the financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2008 and of 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 Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Breda, October 13, 2009

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

L.C. Augustijn RA

Milkiland B.V. and Milkiland Corporation
Combined Financial Statements

For years ended December 31, 2007, 2006

MANAGEMENT REPORT

Application stated below should be considered in conjunction with description of independent auditors' responsibilities provided on page 4 of independent auditor's report is carried out in order to segregate responsibility of management and independent auditors in respect of the combined financial statements of Milkiland B.V. and Milkiland Corporation (the Group).

Management is responsible for preparation of the combined financial statements that present fairly in all material aspects the financial position of the Group as at December 31, 2007, 2006, cash flow and changes in equity as at this date in accordance with International Financial reporting Standards (IFRS).

During preparation of the combined financial statements management is responsible for:

Selection of appropriate financial accounting principles and their future applying;

Using reasonable estimations and assumptions;

Follow IFRS and disclosing all material deviations in notes to the combined financial statements;

Preparation of the combined financial statements based on going-concern assumption, less cases when such assumption is illegible

Management is responsible for:

Development, implementation and functioning effective and reliable internal control system in the Group.

Maintain financial accounting system that allows at any moment prepare at a certain degree of accuracy information on financial position of the Group and provides compliance of combined financial statements with IFRS requirements.

Take measures within self competence to secure Group's assets.

Avoid and disclose fraud.

Combined financial statements for the year 2006 a 2007 were confirmed on June, 25 2008 on behalf of Group's management.

President	______________________	Vyacheslav Rekov

BDO

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Independent Auditor's report

To the Shareholders of Milkiland Corporation and Milkiland B.V.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Milkiland B.V. and Milkiland Corporation (further – the Group), which comprise the combined balance sheet as at December 31, 2007, 2006 and the combined income statement, combined statement of changes in equity and combined cash flow statement for years ended December 31, 2007, 2006 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 risk 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 the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects of the financial position of Group as at December 31, 2007, 2006 and of its financial performance and its cash flows for years ended December 31, 2007, 2006 in accordance with IFRS.

Kyiv, June 25, 2008

BDO LLC

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ідентифікаційний код
20197074
№ 1

Combined Balance Sheet
As at December 31, 2007, 2006
(in 000 EUR)

	Notes	December 31, 2007	December 31, 2006
Assets			
Current Assets:			
Cash and cash equivalents	15	28,006	3,919
Accounts receivable, net of allowance for doubtful accounts	14	22,376	8,554
Inventories	13	18,954	10,392
Prepayments		2,948	601
Taxes receivable	17	3,929	4,024
		76,213	**27,491**
Non-Current Assets:			
Property, plant and equipment	12	57,691	42,580
Deferred tax asset	16	2,860	-
		60,551	**42,580**
Total Assets		**136,764**	**70,071**
Liabilities and Stockholders' Equity:			
Current liabilities:			
Accounts payable	18	28,810	9,867
Taxes payable	19	1,336	659
Bank loans	20	37,982	5,233
		68,128	**15,759**
Non-Current Liabilities:			
Long-term bank loans	20	36,570	33,588
Deferred tax liabilities	16	2,860	-
		39,430	**33,588**
Minority Interest		**1,187**	**-**
Stockholders' Equity:			
Share capital	21	18	10
Additional paid-in capital		2,482	987
Declared dividends	11	51	-
Currency translation reserve		(3,214)	1,255
Retained earnings		28,682	18,472
		28,019	**20,723**
Total Liabilities and Stockholders' Equity		**136,764**	**70,071**

See accompanying notes to combined financial statements

President ______________________ **Vyacheslav Rekov**

Combined Income Statement

For years ended December 31, 2007, 2006
(in 000 EUR)

	Notes	Year ended December 31, 2007	Year ended December 31, 2006
Sales	5	164,939	113,495
Cost of goods sold	6	(107,911)	(75,941)
Gross Profit		**57,028**	**37,554**
Subsidies		284	
Selling, general and administrative expenses	7	(36,279)	(28,107)
Operating Income		**21,033**	**9,447**
Foreign exchange gains/(loss),net		(587)	(647)
Interest income		44	14
Interest expenses		(6,776)	(6,746)
Non-operating income/ (expenses)	8	(98)	(958)
Other income/(expenses)	9	232	4,645
Profit before tax		**13,849**	**5,754**
Income tax expense	16	(1,547)	(122)
Profit for the year		**12,302**	**5,633**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		**(2,764)**	**(1,852)**
Total comprehensive income/(loss) for the year		**9,538**	**3,781**
Profit attributable to:			
Owners of the Group		**12,282**	**5,638**
Non-controlling interests		**20**	**(5)**
		12,302	**5,633**
Total comprehensive income/(loss) attributable to:			
Owners of the Group		**9,518**	**3,781**
Non-controlling interests		**20**	**-**
		9,538	**3,781**

President ______________________ **Vyacheslav Rekov**

See accompanying notes to combined financial statements

Combined Cash Flow Statement
For years ended December 31, 2007, 2006
(in 000 EUR)

	Year ended December 31, 2007	Year ended December 31, 2006
Cash flow from operating activities		
Profit before taxation	13,849	5,268
Adjustments for:		
Depreciation and amortization	5,729	7,161
Change in provision for bad and doubtful debts	3,332	1,154
Interest expenses	6,776	8,482
Operating cash flows before working capital changes	**29,686**	**24,038**
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(19,430)	(4,022)
(Increase) decrease inventories	(10,352)	(1,143)
(Increase) decrease prepayments	1,445	780
(Increase) decrease taxes receivable	(352)	1,054
(Decrease) increase in accounts payable	22,750	2,439
(Decrease) increase in taxes payable	631	(618)
Cash provided from operations		
Interest paid	(6,637)	(7,728)
Income taxes paid	(1,379)	(166)
Net cash from operating activity	**16,362**	**14,634**
Investing activities		
Acquisition of property, plant and equipment and subsidiaries	(24,357)	(7,154)
Acquisitions of subsidiaries, net of cash acquired	(7,389)	-
Net cash from investment activity	**(31,746)**	**(7,154)**
Financing activities		
Dividends paid	(2,818)	(4,469)
Change in Equity	(15)	2,961
Change in borrowings	42,686	(4,096)
Net cash from financial activity	**39,853**	**(5,604)**
Net foreign exchange difference	(382)	(742)
Net increase in cash	**24,087**	**1,134**
Cash at beginning of the period	3,919	2,785
Cash at the end of the period	28,006	3,919

President ____________________ **Vyacheslav Rekov**

See accompanying notes to combined financial statements

	Share capital	Additional capital	Accumulated dividends	Retained earnings (deficit)	Foreign currency translation reserve	Total stockholders' equity
Balance as of December 31, 2005	**10**	**1,102**	**2,457**	**13,435**	**1,402**	**18,405**
Declared dividends			1,250	(1,250)		-
Dividends paid			(3,554)			(3,554)
Net income for the period ended December 31, 2006				5,637		5,637
Accumulated funds				2,355		2,355
Currency Translation Adjustment		(115)	(152)		(1,852)	(2,119)
Balance as of December 31, 2006	**10**	**987**	**(0)**	**20,177**	**(450)**	**20,724**
Declared dividends			2,873	(2,873)		-
Dividends paid			(2,818)			(2,818)
Net income for the period ended December 31, 2007				12,282		12,282
Accumulated funds	8	1,495		(904)		599
Currency Translation Adjustment			(3)		(2,764)	(2,767)
Balance as of December 31, 2007	**18**	**2,482**	**51**	**28,682**	**(3,214)**	**28,020**

President ______________________ **Vyacheslav Rekov**

See accompanying notes to combined financial statements

Notes to the Combined Financial Statement
For years ended December 31, 2007, 2006
(in 000 EUR)

1. General

These combined financial statements include several companies (the Companies) ultimately owned by 1 Inc. During 2007-2008 the Companies were restructured to form a group (the Group). The Companies include:

- Milkiland B.V., the Netherlands, Since July 13, 2007

- Milkiland Corporation, Panama with subsidiaries

Milkiland B.V. is a company domiciled in the Reinwardtstraat 232, Amsterdam, the Netherlands. The company was incorporated on July 13, 2007. The objective of the Company is to act as a intermediate holding.

Milkiland Corporation was incorporated and domiciled in Panama on August 18, 1999. The Milkiland Corporation was formed as company limited by shares and had named Dairy Food Corporation, subsequently renamed to Milkiland Corporation.

The Parent Company issued its share capital on August 18, 1999. The Parent Company purchased a subsidiary, BKS Miltek, now DP Milkiland Ukraine that was incorporated in Ukraine on December 9, 1999. The Parent Company performs its main business activity through Milkiland Ukraine and its subsidiaries. Milkiland Ukraine is a dairy trade company.

In 2002 the Group acquired a control over three milk factories: JSC Sumsky molochniy zavod, Borsna MZ, Nosovka MZ.

In 2003 the Group acquired a control over JSC Mensky Syr, Myrhorod Syr, Lviv MK and DE Aromat consisting of six milk factories in Chernigiv, Sumy, Khmelnytsk and Kiev region.

In 2004 the Group acquired control over JSC Khladocombinat #4 Kiev and PE Prometey consisting of six milk factories in Khmelnytsk, Chernigiv and Lviv region.

In 2005 the Group acquired control over CSC Bilopilsky syrzavod, JSC Konotopsky molzavod, JSC Glukhiv maslosyrzavod, JSC Okhtyrsky syrkombinat", JSC Vasilevsky syrzavod, JSC Romensky molochniy kombinat in Sumy region.

In 2007 the Group acquired Moldim Ltd in Dnipropetrovsk region and JSC Transportnik in Kyiv, so as LTD Moloko Polissia, LTD Stugna-Moloko, LTD Trubizh-Moloko, JSC KMZ#1, JSC Chernigiv MZ, CSC Gorodnia MZ, LTD Iskra, LTD MKP Revers, LTD Agrosvit, LTD Molochni vyroby

Acquired net assets and the amount exceeding acquired share in net fair value of identifiable assets and liabilities include

	Moldim Ltd Carrying amount at April, 01 of 2007	**JSC Tran-sportnyk** Carrying amount at April, 01 of 2007	**LTD Moloko Polissia** Carrying amount at December, 31 of 2007	**LTD Iskra** Carrying amount at December, 31 of 2007	**JSC Chernigiv MZ** Carrying amount at November, 01 of 2007	**CSC Gorodnia MZ** Carrying amount at November, 01 of 2007	**LTD MKP Revers** Carrying amount at October, 01 of 2007	**JSC KMZ#1** Carrying amount at October, 31 of 2007	**LTD Agrosvit** Carrying amount at December, 31 of 2007
Purchased net assets									
Equipement, cost-net	638	106	880	816	1,289	168	44	464	219
Inventories	336	-	548	606	763	26	53	975	172
Trade accounts receivable	310	158	13	95	6,657	360	90	1,494	21
Taxes receivable	23	11	245	29	118	339	1	208	-
Cash and cash equivalents	14	53	81	10	138	104	19	165	5
Trade accounts payable	(1,041)	(153)	(745)	(238)	(1,301)	(163)	(76)	(3,859)	(48)
Other accounts payable	(1,276)	-	-	(182)	(6,266)	-	-	-	(52)
Taxes payable	(24)	(24)	(5)	(81)	(50)	(19)	(93)	(139)	(1)
Cost of acquired net assets	(1,020)	151	1,017	1,055	1,348	815	38	(692)	316
Remunerations due to acquisition	2,253	2,256	573	69	7,115	423	203	3,628	98
Net of cash and cash equivalents of acquired company	(14)	(53)	(81)	(10)	(138)	(104)	(19)	(165)	(5)
Cash outflow due to acquisition	2,239	2,203	492	59	6,977	319	184	3,463	93

Combined financial statements include financial statements of Milkiland Corporation and subsidiaries stated below for the year 2007 and one preceding year.

	% of equity interest
DE Borznyanskiy molzavod	100.0
LTD Mirgorodsky syrorobny kombinat	100.0
DE Milkiland Ukraine	100.0
LTD Molgrup	100.0
DE Aromat	100.0
PE Prometey	100.0
PE Ros’	100.0
LTD Molprod	100.0
LTD Syr-Trading	100.0
LTD UMD	100.0
LTD Molochny pan	100.0
LTD Magazyn Moloko	100.0
LTD Moloko Polissia	70.0
LTD Malka-trans	100.0
JSC Transportnyk	70.3
LTD Moldim	100.0
LTD Stugna-Moloko	100.0
LTD Trubizh-Moloko	100.0

LTD Iskra	68.0
JSC KMZ#1	100.0
JSC Chernigiv MZ	76.0
CSC Gorodnia MZ	91.4
LTD MKP Revers	100.0
LTD Agrosvit	76.0
LTD Lvivskiy molochniy kombinat	38.0
LTD Molochni vyroby	100.0

On the date of this report LTD Lvivskiy molochniy kombinat is under the procedure of liquidation. Taking into consideration that the share of the Group in this entity is 38%, a 100% reserve was counted for all assets and liabilities of LTD Lvivskiy molochniy kombinat, as well as for all investments of the Group in LTD Lvivskiy molochniy kombinat

Business

The milk factories are located in Chernigiv, Kyiv, Ternopil, Lviv, Sumy, Poltava, Dnipropetrovsk and Khmelnytsk region of Ukraine. The main factories are Mensky Syr, Romensky MK and Myrgorod SK, which are located in Chernigiv, Sumy and Poltava regions accordingly. The factories purchase milk from local farmers and produce cheese, butter, powdered milk and casein, which are sold mainly in Ukraine and Russian Federation.

2. Applying new IFRS

In 2007 Group has applied all new and revised standards and interpretations issued by Committee of International Financial reporting Standards (CIFRS) and Committee on Interpretations of International Financial reporting Standards (CIIFRS) related to its transactions during reporting periods since January 01, 2007.

The adoption of IFRIC 8 "Scope of IFRS 2" ("IFRIC 8"), IFRIC 9 "Reassessment of Embedded Derivatives" ("IFRIC 9") and IFRIC 11 "IFRS 2—Group and Treasury Share Transactions" ("IFRIC 11") effective 1 January 2007 did not have a material effect on the financial statements of the Group.

Effective 1 January 2007 the Group adopted IFRS 7 "Financial instruments: Disclosures" ("IFRS 7") and Amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures" ("IAS 1"). New IFRS 7 introduces new disclosures to improve the information about financial instruments. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital.

Management believes that applying those standards and interpretations did not effect significantly to the Group's financial statements.

The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing this financial statement:

IFRS 8 "Operating Segments" ("IFRS 8"), which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 "Segment reporting". The standard requires an entity to adopt the "management approach" to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operations segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

Amendment to IAS 23 "Borrowing costs" ("IAS 23"), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1"), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS I is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

IFRIC 12 "Service Concession Arrangements" ("IFRIC 12") which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services - such as roads, airports and other facilities - to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13") which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses whether the entity's obligations to provide free or discounted goods or services in the future should be recognized and measured, and if consideration is allocated to the award credits how much should be allocated to them, when revenue should be recognized and, if a third party supplies the awards, how revenue should be measured.

The Group's management intends to apply these standards and interpretations since they come into force. The management is studying the effect these standards and interpretation may have upon the Group's financial condition and operating results.

3. Presentation of financial statements

Basis of presentation

The accompanying combined financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). Financial accounting of the Group's companies is carried out according to the legislation and Ukrainian National Accounting Standards (further in the text - NAS). Effective in Ukraine NAS differ from generally accepted principles and standards of IFRS. Respectively, some changes and amendments were made to the combined financial statements in order for them to comply with IFRS.

These combined financial statements are prepared on the historical cost basis.

Functional and presentation currencies

The combined financial statements (further the "financial statements") have been prepared on a historical cost basis, except for land and buildings, which have been measured at fair value. The amounts in these financial statements are disclosed in Euro (EUR).

For translation of all amounts in balance sheet (except equity) into EUR were used the following rates UAH/EUR:

As at 31.12.2006 - 6.6509
As at 31.12.2007- 7.4341
Profit and loss accounts were translated using averaged rates:

for year 2006 - 6.3494

for year 2007 - 6.9352

Equity was translated from UAH using historical rates.

Material estimates and assumptions

Preparation of IFRS combined financial statements demands from the Group management development of estimates and assumptions that effect assets and liabilities, income and expenses of the Group stated in the financial statements as well as contingent assets and liabilities. Due to inaccuracy inherent to such estimates and assumptions factual results included to statements of future periods might differ from these estimates.

4. Significant accounting policies

Consolidation and combination principles

Combined financial statements include financial statements of Milkiland Corporation and other companies where the Group directly or indirectly has majority of voting shares or control such a company in another way. The Group management considers that presentation of combined financial statements is necessary in order to achieve overall presentation of financial position and operating results of the Group.

Financial statements of subsidiaries are prepared for the same reporting periods as the parent company. When, necessary, adjustments were included in the financial statements of subsidiaries in order for the accounting policies to comply with those of the Group.

Shares of minority shareholders in net assets of combined subsidiaries are reflected in the reporting independently from the Group equity. The minority shareholders share is initially computed proportionally to their share in the fair value of net assets, liabilities and contingent liabilities at the date of a subsidiary acquisition. Minority shareholders shares at the end of the reporting period include shares of mentioned shareholders at the date of initial merger of the companies and minority shareholders' shares in changes in equity after that date. Losses exceeding the minority shareholders, share in the equity of a subsidiary are reported as losses of the Group except for the cases when minority shareholders are obliged and have the opportunity to contribute additional funds to the equity of subsidiaries in order to cover incurred losses.

Acquisition of subsidiaries is accounted for at the acquisition method. Acquisition cost is defined by total fair value of assets, undertaken liabilities and/or shares issued by the group at the date of acquisition in exchange for the control over the company being acquired plus any direct acquisition costs. Identifiable assets, liabilities and contingent liabilities of the company being acquired that meet the terms of reflection in accordance with IFRS 3 are reported at the fair value at the acquisition date except for non-current assets (or group of assets subject to disposal) classified as those held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", which are recognized and assessed at the fair value net of sales expenses.

Financial results of acquired or disposed during a year subsidiaries are included into the combined Income statement starting from the acquisition date or up to the date of sales respectively.

All intragroup transactions, relevant balances and unrealized income and losses from transactions have been eliminated from the combined financial statements.

Investments in affiliates

Affiliate is a company upon which the Group has a significant effect and is neither subsidiary nor a joint venture. Significant effect is participation in development of financial and economic policy, but not full control or joint activity in such processes. Assets and liabilities as well as financial results of subordinate companies are included in these financial statements under the equity method except when investments are classified as considered for sale and accounted under IFRS 5. Under the equity method financial investments to affiliates are stated in the combined balance sheet at acquisition cost including adjustment of changes share in the Group in net assets of an affiliate after acquisition less impairment amount. Losses of an affiliate exceeded investments of the Group in such enterprise (including all long-term investments that are the part of the General Group's investments to such company) are not recognized in the Group's combined reporting.

Excess of acquisition cost over the cost of the Group's share in fair value of identified assets, liabilities and commitments of an affiliate at the acquisition date are recognized as the goodwill. The goodwill is included into the carrying amount of investments to an affiliate and analyzed as for impairment. Any exceeding Group's share in fair value of assets, liabilities and commitments of an affiliate after revaluation over acquisition cost and immediately recognized in the income statement.

Non-realized income and losses resulted from transactions with an affiliate are to be excluded proportionally to equal share of the Group in capital of affiliates except when non-realized losses testify to impairment of a transferred asset.

Goodwill

Goodwill as a result of a subsidiary acquisition is recognized as an asset and assessed as the amount exceeding the acquisition cost over the group's share in the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary or affiliate at the acquisition date. Goodwill as a result of an affiliate acquisition is included in the carrying amount of investments to an affiliate. Goodwill is initially recognized as an asset during the primary evaluation, which is further adjusted to the impairment amount.

For the impairment testing the goodwill is allocated to each cash generating structural unit of the Group it relates. Cash generating units to which the goodwill is distributed are subject to testing for impairment each year or even more often whenever the indications of their impairment appear. If the recoverable amount for a cash generating unit is less than its current amount losses from impairment are initially reported in the goodwill related to this unit and then in the rest of assets of this unit proportionally to their carrying amount. Goodwill impairment losses cannot be recovered during the following periods.

Recoverable amount of cash generating units is defined on the basis of calculation of their utilization cost in the company economic activity. Key assumptions are discount rates, growth indexes, estimated changes in sale prices and direct costs for the period. The Management estimates discount rates applying rates before taxation reflecting current market expectation as to the cost of money in time and specific risk related to the cash generating units. Growth indexes are based on growth forecasts with respect to a branch as a whole. Changes in sale prices and direct expenses are based on previous experience and expectations regarding future changes in the market.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for the financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets and IAS 38 (revised) Intangible Assets.

Adoption of IFRS 3 and IAS 36 (revised) has resulted in the Group ceasing annual goodwill amortization and commencing testing for impairment at the cash generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested mote frequently) from January 2005.

Property, plant and equipment

Equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of spare parts of the equipment when that cost is incurred, if the capitalization criteria are met.

Land and buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Revaluations are performed frequently enough to ensure that the fair value of a revaluated asset does not differ materially from its carrying amount.

Revaluation surplus is attributable to increase of revaluation assets fund that is included in capital of the balance sheet except when such surplus restores decreasing cost of this asset resulted from the previous revaluation if negative revaluation of such asset was recognized in the income statement. In the latter case increase of the asset's cost is recognized in the income statement. Loss from revaluation is recognized in the income statement except when loss directly decreases positive revaluation of the same asset that was previously recognized in the capital in the balance sheet. In the latter case negative revaluation is referred to decrease of fund of assets revaluation.

The difference between amortization calculated on the basis of revalued carrying amount of an asset and amortization calculated on the basis of primary cost of an asset is transferred annually from fund of assets revaluation to retained earnings. Besides accumulated amortization at the revaluation date is excluded with simultaneous reducing gross carrying amount and then net amount surpluses to revaluated cost of the asset. During disposal of an asset the revaluation fund referred to certain asset sold is transferred to the retained earnings.

Construction in progress includes expenses related directly to construction of fixed assets including accompanying re-allocation of variable overheads related directly to cost of construction. Amortization of such assets as well as other items of property is begun since put into operation.

Income or loss resulted from disposal of any asset estimated as difference between sale profit and depreciated cost of an asset is stated in the income statement.

During each capital repair relevant costs are recognized as cost of equipment if all criteria of capitalization of costs are observed.

Write off of fixed assets from the balance sheet is carried out during retirement or when in future there are no economic benefits from using or retirement of such asset. Income and losses resulted from write off of the asset (calculated as difference between net proceedings from retirement and carrying amount of asset) is included in the income statement for the reporting period when the asset was written off.

Depreciated cost and useful life as well as the amortization methods are revised and adjusted if necessary at the end of each financial year.

Expected useful lives for key groups of property, plant and equipment are the following:

Groups of property, plant and equipment	*Useful lives, years*
Buildings and constructions	20-40
Machines and equipment	4-7
Other	1-6

Investment properties

Investment properties are measured initially at cost, including acquisition, construction costs and other related expenses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the capitalization criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value less accumulated amortization and losses from impairment of assets.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to the investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible assets

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

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

Intangible assets with definite lives are amortized 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 finite useful life are reviewed at least at each financial 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 finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

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

Non-current assets held for sale

Non-current assets held for sale are classified as such when their cost is to be compensated by sale of these assets but not further exploitation. This term can be fulfilled when assets are ready to immediate sale and they will be sold for sure. Management should have intention to sale such assets during one year.
Non-current assets classified as assets for sale are stated at lower of current and fair cost sale less sale expenses.

Inventories

Inventories are valued at the lower of cost and realizable value.
Finished goods are valued at the FIFO method. Average-weighted cost method is used for accounting other inventories.
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 appropriate overheads in the ordinary activity of the Group.
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 combined balance sheet include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus expenses from bargain except financial instruments estimated at fair value recognized in the income statement. Financial instruments are stated in balance sheet at the moment of bargain in respect of 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 losses its rights or repays liabilities related to this financial instrument. When financial asset is written off difference between received and accrued compensation and carrying amount is recognized in the combined income statement. When financial liability is written off the difference between paid or accrued compensation and current carrying amount is recognized in the income statement.

Financial investments

Financial investments can be classified in the following way:

Investments held-to-maturity;

Financial assets at fair value through profit or loss;

Available for sale

Financial investments to debt securities with fixed income and mature date which the Group intends to sell and is able to hold till mature except for loans provided and receivables of the Group are classified as "held-to-maturity investments". Financial investments held to maturity are accounted for at amortized cost using effective interest rate method less impairment reserve. Amortization of discount or premium when securities "held-to-maturity" are acquired is recognized as interest income during the term of repayment. Securities held to maturity are stated as capital assets except when repayment is expected during 12 months after the reporting date.

Financial investments assessed at fair value with recognition of change in the income statement include investments for sale and investments classified at primary recognition as instruments reported in the accounting at fair value with its change recognition in the income statement.

Any other financial investments except for loans and receivables of the Group are classified as "available for sale".

Financial investments assessed at fair value with recognition of changes in the income statement as well as financial investments available for sale are stated further in the balance sheet at fair value calculated on the basis of market quotation at the date of financial statements excluding operating expenses that might be resulted from the sale or retirement. Income and expenses related to changes of fair value of securities accounted for at the fair value with recognition of changes in the income statement are stated in the income statement for the period. Income or losses received at revaluation of fair value of investments available for sale are stated as provision for revaluation of investments as equity up to their retirement. At that accumulated profits or losses previously recognized in the equity are stated in the income statement.

When reducing fair value of investments for sale was reported in the equity but some objective factors had appeared that confirm impairment of investments then accumulated loss stated in the capital should be referred to losses in the income statement even if there were no retirement of investments.

Financial investments without quotations in an active market and which fair value can not be estimated reliably are stated on the basis of the acquisition cost.

Loans provided

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash in banks and cash desks, bank deposits and high liquid contributions with mature up to three months that can be easily converted to respectful cash funds and which change risk is not significant.

Credits and loans received

All credits and loans are initially recognized at fair value of received amount less expense related to receiving. After primary recognition interest bearing credits and loans are assessed at amortized cost under the effective interest rate method. Financing costs including premiums paid during settlements or repayment are accounted under the accrual method and added to the current carrying amount of an instrument if they were not paid in the period when they incurred. Income and expenses are recognized in the income statement when liabilities are derecognized as well as during amortization process.

Trade and other payables

Trade and other payables are stated at nominal cost.

Lease

Lease of fixed assets, when the Group obtains all significant risks and profits resulted from property right, are classified as the financial lease. All other types of lease are classified as the operational lease.

Rental payments under operational lease agreements are transferred to financial results in the respective period.

Assets under financial lease agreements are recognized as the Group's assets at fair value at the acquisition date or at cost of minimal lease payments at the same date if they are lower than fair value of an asset. Respective liabilities to a leaser are stated in the combined balance sheet as financial lease liabilities. Financing costs – difference between total lease liabilities and fair value of acquired assets are referred to financial results during a lease term in order to provide constant interest rate at depreciated cost of liabilities for each accounting period.

The assets under financial lease agreements are amortized during estimated useful life or during a lease term if this term is shorter. If there is assurance that the leaser obtains property right for leased assets before the end of the lease term then amortization of assets is calculated during the useful life.

Net investments to the financial lease are gross investments to the financial lease less non-received financial income.

Gross investments to lease are minimal payments in the financial lease from point of view of a lessor and any non-guaranteed depreciated cost. Minimal lease payments are the payments during the whole lease term which a leaser is liable to fulfill net payments of services and taxes paid by a lessor under compensation terms.

Non-received financial income is calculated as difference between gross investments to lease and their discounted cost.

Interest rates considered in the lease agreement is a discounted rate when at the beginning of a lease term total discounted cost of minimal rental payment from the point of view of a lessor and non-guaranteed depreciated cost is equal to the fair value of a lease object.

Non-guaranteed depreciated cost is a part of depreciated cost of a leased asset towards which a lessor does not have guarantees or has guarantees only from the related party.

Fair value of an asset transferred to the financial lease is the amount obtainable from an asset exchange or sufficient for repayment of liabilities between the parties that are well-informed and having an intent to perform such operation.

Provision for probable losses from the financial lease are recognized in the income statement and accounted for as reducing investments to the financial lease.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Trade revenue is stated at fair value less discounts and other taxes.

Financial lease

Revenue recognized when the financial lease has been commenced is reported at the fair value of an asset or, if it is lower, at the current cost of minimal rental payments calculated at the effective interest rate of compensation. Financial income is allotted to the financial lease term so that to provide for constant rate of return to unpaid balance of net investment. Financial lease income is not recognized when delinquency of lease payments comprises over 60 days.

Operating lease

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.

Interest income

Interest income is recognized in the period it has been gained based on the principal debt amount and the effective interest rate resulting during discounting the future cash inflow to the current cost of a respective asset.

Dividend income

Dividend revenue is recognised when the shareholders' right to receive the payment is established.

Other services

Revenue from sale of services is stated in the period when such services were rendered after completion concreted transaction estimated on the basis of factually rendered service proportionally to a full scope of services that are to be rendered.

Borrowing costs

Borrowing costs are recognized as expenses when they incurred.

Foreign currency transactions

Ukrainian hryvnya is the functional currency. Transactions in currencies other than hryvnia are treated as foreign currency transactions.

Foreign currency transactions are stated under the rate effective at the date of transaction. Monetary assets and liabilities denominated in foreign currency are recalculated at the exchange rate at the reporting date. All exchange differences are stated in the combined income statement.

Non-monetary items are assessed on the historical cost in foreign currency, recalculated under rates valid at primary date.

Impairment of assets

At each reporting date the Group assesses carrying amount of property, plant and equipment as well as intangible assets in order to find out whether any evidences for impairment of assets exist. If so, recoverable cost of assets is calculated in order to assess impairment loss (if such is available). When it is not possible to assess recoverable cost of an asset the Group estimates recoverable cost of unit generating cash flows where such asset is attributable.

Recoverable amount is assessed as the higher index of fair value of an asset less sale costs and cost generating from using in economic activity of the Group. While assessing cost of using supposed cash flow is discounted to current value using rates before taxation that indicated current market value of cash and inherent specific risks to this asset.

If recoverable amount of an asset (or cash generating unit) according to estimations indexes is less than the current amount then the current amount of an asset (cash generating unit) should be discounted to this index. Impairment losses are recognized in the income statement except when impairment is referred to assets stated at revaluation cost when impairment amount is referred to revaluation reserve.

If impairment losses are recovered in future period current value of asset (cash generating unit) should be increased to new recoverable amount but in such a way that recoverable amount of such asset does not exceed discounting cost in previous periods. Recoverable impairment amount is recognized in the income statement except when impairment is referred to assets stated at revaluation cost when recoverable impairment amounts are referred to revaluation reserve.

Value added tax (VAT)

VAT during sale should be paid to the tax authorities during receiving payment from customers. 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 are allowed to offset VAT. VAT in respect of acquisitions and sales when settlement is completed at the balance sheet date (deferred VAT) is stated in the balance sheet by separate amounts as current assets or liabilities. If the provision was formed to receivables this provision is reported in full measure including VAT. Deferred liability on VAT is still recognized in the financial accounting until receivables are repaid or written off in order provided by the financial accounting rules.

Income tax

Income tax is calculated in accordance with the Ukrainian legislation. Tax is calculated on the basis of financial results for the current year adjusted to income and expenses excluded during calculation of this tax.
Deferred income tax requirements and liabilities are provided using the balance sheet liability method for the temporary differences arising between the tax bases and the data for financial reporting purposes. Deferred tax liabilities are generally recorded using all temporary differences that increase taxable income and deferred tax requirements are stated including future income appropriate to use appeared tax requirements. The Group accounts deferred tax requirements and liabilities when they are referred to income taxes withdrawn by the same tax body and the Group intends to offset future tax requirements and liabilities.

Deferred taxes are calculated under rates that should be applied in the sale period of an asset or repayment of indebtedness. They are stated in the income statement except when they relate to items directly related to equity; in this case they are stated in the equity.

Benefits to employees

Salary, social security expenses, vacations, hospital services, premiums and non-monetary payments are accrued in the period when such benefits were provided to the Group's staff.

Pension provisions

The Group's operating enterprises contribute to the pension Fund of Ukraine, medical and social insurance funds for all their employees. These contributions are reported in financial results in the period they were incurred.

Dividends

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

Provisions

Provisions are recognized when the Group has 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 of the provisions to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Governmental subsidies

Governmental subsidies are recognized when there is reasonable assurance that they are to be received and all accompanying terms fulfilled. If subsidy is provided in order to finance certain expenses it should be recognized as income in the same periods as respectful expenses that it should compensate on a regular basis. If subsidy is issued in order to finance an asset then it is recognized as deferred income. If the Group receives subsidies in non-monetary form then assets and subsidy are accounted at nominal cost and stated in the income statement during assumed useful life of an asset by equal annual parts.

Offsetting financial instruments

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

5) Sales

	Year ended December 31, 2007	Year ended December 31, 2006
Other products	4,062	7,696
Ice-cream	2,032	1,883
Monolith butter	9,771	7,946
Packaged butter	4,606	5,812
Cheese	73,300	55,621
Dry milk products	47,089	18,614
Whole-milk products	24,079	15,923
Total	**164,939**	**113,495**

Net sales except VAT can be divided as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Domestic	85,728	64,571
Export	79,211	48,924
	164,939	**113,495**

Export sales except VAT are divided as follows:

	Year ended December 31, 2007		Year ended December 31, 2006	
Country	**Sum of net sales**	**Sum of net sales**	**Sum of net sales**	**% of export sales**
Russia	47,640	60.14%	35,963	73.51%
Holland	12,394	15.65%	5,395	11.03%
Kazakhstan	7,037	8.88%	5,022	10.26%
Azerbajan	372	0.47%	621	1.27%
Denmark	5,237	6.61%	542	1.11%
Turkey	134	0.17%	-	0.00%
Lithuania	721	0.91%	-	0.00%
Moldova	185	0.23%	-	0.00%
USA	239	0.30%	-	0.00%
Singapore	3,810	4.81%	-	0.00%
France	260	0.33%	-	0.00%
Belorussia	237	0.30%	-	0.00%
Germany	947	1.20%	-	0.00%
Other	-	0.00%	1,381	2.82%
Total	**79,213**	**100%**	**48924**	**100%**

6) Cost of goods sold

	Year ended December 31, 2007	Year ended December 31, 2006
Other products	7,968	6,609
Ice-cream	1,718	959
Monolith butter	9,379	6,776
Packaged butter	2,719	4,957
Cheese	46,763	32,985
Dry milk products	23,376	12,666
Whole-milk products	15,988	10,989
Total	**107,911**	**75,941**

7) Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2007, 2006 are as follows

	Year ended December 31, 2007	Year ended December 31, 2006
Wages and salaries	6,389	4,565
Depreciation	5,729	5,696
Representative charges	5,463	5,331
Doubtful debts	4,294	78
Utilities	2,627	2,155
Property, plant and equipment rent	2,507	2,006
Taxes and other charges	2,305	1,964
Marketing and advertising	2,167	2,625
Bank commission	1,469	982
Service of security and other	790	721
Transportation	780	694
Legal service	558	400
Auditing service	385	144
License fees	384	360
Communication	351	314
Office supplies	81	72
Total	**36,279**	**28,107**

8) Non operating income and expenses

Non operating income and expenses for the years ended December 31, 2007, 2006 are as follows

	Year ended December 31, 2007	Year ended December 31, 2006
Other compensation	234	93
Writing off account payables	47	-
Result of correction of prior year errors	20	(236)
Fines and penalties	4	87
Assets received for free	1	(84)
Net income from sales of other current assets	-	45
Dividends received	-	407
Bad debts written off	-	-
Impairment of assets	(82)	(1,270)
Other losses	(322)	-
	(98)	**(958)**

9) Other income (expenses)

Other income (expenses) for the years ended December 31, 2007, 2006 are as follows

	Year ended December 31, 2007	Year ended December 31, 2006
A profit from realization of foreign currency, net		
Other profits from financial operations	169	4,020
Profit from realization of financial investments, net	23	140
Net income/(loss) from sales of non-current assets	-	(56)
Other profits from ordinary activity	40	956
Obsolescence of inventories		(415)
Total	**232**	**4,645**

Other profits from financial operations represents other income from transactions related to transfer of assets (chattes, real estate, receivables, payables, tax settlements) from members of the Group, subsequently shutted down.

10) Minority interests

Minority interest relates to legal entities, which were out of operations in stage of closing down the activities (Nezhin GMZ, Sumy MZ, Laktis). The shareholders decide to close its activities due to loss making during 2003 – 2006 years. Finally these entities were closed in 2006 resulting to income due to positive capital in process of liquidation. All necessary actions were agreed with government authorities and all creditors and minorities shareholders were paid in full.

	31.12.2005	Minority's share of the financial result	Change of minority's share due to closing activities	31.12.2006	Minority's share of the financial result	Change of minority's share due to including activities	31.12.2007
Borznansky mz LTD	(18)	-	17	-	-	-	-
JSC Tetiev mz	23	-	(21)	-	-	-	-
LTD Moloko Polissia	-	-	-	-	67	260	305
JSC Transportnyk	-	-	-	-	(17)	43	24
LTD Iskra	-	-	-	-	36	325	338
JSC Chernigiv MZ	-	-	-	-	(93)	495	375
CSC Gorodnia MZ	-	-	-	-	-	74	69
LTD Agrosvit	-	-	-	-	26	55	75
Total	6	-	(6)	-	27	1 720	1 747

11) Dividends paid and proposed

	Year ended December 31, 2007	Year ended December 31, 2006
Dividends declared for year on ordinary shares	*	3,138
Dividends declared in year on ordinary shares	2,873	1,250
Paid dividends on ordinary shares	2,818	3,554
Accumulated dividends	55	-

* - Dividends for the year 2007 were not counted.

12) Property, plant, equipment and intangible assets:

	Land and buildings	Plant and equipment	Constructions in progress	Intangible assets	Other assets	Total
Acquisition cost						
December 31, 2005	**30,867**	**11,574**	**1,835**	**89**	**10,791**	**55,156**
additions	841	2,497	5,346	27	1,879	10,589
disposals	(1,614)	(80)	-	(7)	(1,240)	(2,941)
transfers	-	-	(5,891)	-	-	(5,891)
Foreign currency translation	(3,183)	(1,316)	(167)	(10)	(1,154)	(5,830)
December 31, 2006	**26,911**	**12,674**	**1,123**	**99**	**10,276**	**51,083**
additions	15,618	9,200	5,555	25	-	30,398
revaluating of assets*	566	-	-	-	-	566
disposals	-	-	(441)	-	(2,451)	(2,892)
transfers	-	-	-	-	-	-
Foreign currency translation	(3,884)	(1,953)	(462)	(12)	(918)	(7,228)
December 31, 2007	**39,211**	**19,922**	**5,776**	**111**	**6,906**	**71,927**
Accrued depreciation						
December 31, 2005	**(3,362)**	**(1,118)**	**-**	**(32)**	**(3,097)**	**(7,610)**
Depreciation charge	(2,620)	(381)	-	(11)	(2,684)	(5,696)
Released on disposals	3,204	599	-	1	125	3,929
Foreign currency translation	324	107	-	4	439	873
December 31, 2006	**(2,453)**	**(793)**	**-**	**(39)**	**(5,217)**	**(8,503)**
Depreciation charge	(3,773)	(6,683)	-	(7)	3,356	(7,106)
Released on disposals	-	-	-	-	-	-
Foreign currency translation	512	532	-	5	324	1,373
December 31, 2007	**(5,714)**	**(6,945)**	**-**	**(41)**	**(1,537)**	**(14,236)**
Net cost	**24,458**	**11,881**	**1,123**	**60**	**5,058**	**42,580**
December 31, 2006	**24,458**	**11,881**	**1,123**	**60**	**5,058**	**42,580**
December 31, 2007	**33,497**	**12,977**	**5,776**	**71**	**5,370**	**57,691**

* In 2007 the independent evaluating of "Romensky molochny kombinat" and "Ahtyrsky syrkombinat" was performed by Bureau Veritas. Amount of additional value in comparison with balance value accounted of USD 832 705.

13) Inventories

	Year ended December 31, 2007	Year ended December 31, 2006
Raw materials (at cost) and Production in process	13,790	6,090
Finished goods (at net realisable value)	5,164	4,302
Total	**18,954**	**10,392**

14) Trade and other receivables

	Year ended December 31, 2007	Year ended December 31, 2006
Trade accounts receivable	16,885	5,831
Advances paid	3,438	4,882
Advances paid for fixed assets	249	-
Other account receivable	7,905	720
Promissory notes	-	466
Less - doubtful debts	(6,101)	(3,345)
Total	**22,376**	**8,554**

15) Cash and cash equivalents

Cash at bank is available for demand and earns interest at floating rates based on dayly bank deposit rates

	Year ended December 31, 2007	Year ended December 31, 2006
Bank accounts in USD	346	5
Bank accounts in EUR	25,172	2
Bank accounts in UAH	2,488	3,912
Total	**28,006**	**3,919**

16) Income tax

	Year ended December 31, 2007
Profit before income tax and minority interests	13,849
Implied tax charge at statutory rate of 25%	3,462
Tax effect of non-deductable income and expenses	(1,915)
Income tax expense	**1,547**
Deffered tax assets	5,884
Reserve of tax assets	(1,674)
Deffered tax liabilities	(4,210)
Total	-

17) Taxes receivable

	Year ended December 31, 2007	Year ended December 31, 2006
VAT	2,612	3,670
Income tax	34	243
Other taxes	1,283	111
Total	**3,929**	**4,024**

18) Accounts payables

	Year ended December 31, 2007	Year ended December 31, 2006
Trade accounts payable	7,099	2,416
Advances received	256	2,869
Accounts payable on the operations security-related	-	2,258
Accounts payable for fixed assets	716	-
Other accounts payable	20,739	2,324
Total	**28,810**	**9,867**

Trade payables are non-interest bearing and are normally settled in 60-days terms.

19) Taxes payable

	Year ended December 31, 2007	Year ended December 31, 2006
VAT	25	174
Income tax	439	55
Other taxes	872	430
Total	**1,336**	**659**

20) Interest bearing loans and borrowings

Bank loans as of December 31, 2007 consisted of the following:

Company name	Bank	Currency	Maturity date	Interest rate	Amount in original currency	Outstanding balance	Collateral
Long-term:							
DE "Milkiland - Ukr"	JSC DEIB	EUR	30.04.2012	12,76%	1 555	1,552	Chattel and real property
DE "Milkiland - Ukr"	JSC DEIB	USD	11.09.2013	11,18%	9 862	6,699	Chattel and real property
DE "Milkiland - Ukr"	JSC DEIB	USD	31.08.2014	10,83%	5 969	4,055	Chattel and real property
DE "Aromat"	JSC DEIB	USD	31.08.2014	10,83%	7223	491	Chattel and real property
DE "Aromat"	JSC UPB	UAH	25.12.2009	18,50%	7 305	983	Chattel and real property
PE "CC "Prometey"	JSC DEIB	USD	31.08.2014	10,83%	733	498	Chattel and real property
PE "CC "Prometey"	JSC UPB	UAH	28.03.2010	18,50%	20 000	2,690	Chattel and real property
PE "Ros"	JSC DEIB	USD	11.09.2013	11,18%	15 715	10,675	Chattel and real property
LTD "Molprod"	JSC DEIB	USD	31.08.2014	10,83%	1 626	1,105	Chattel and real property
LTD "MalKa-Trans"	JSC DEIB	USD	11.09.2013	11,18%	8 208	5,576	Chattel and real property
LTD "Syr-Trading"	JSC DEIB	USD	31.08.2014	10,83%	1 228	834	Chattel and real property
LTD "UMD"	JSC DEIB	USD	31.08.2014	10,83%	1 227	834	Chattel and real property
LTD "Molochny pan"	JSC DEIB	USD	31.08.2014	10,83%	331	225	Chattel and real property
LTD "Moldim"	JSC CB Nadra	USD	29.05.2011	12,00%	59	40	Chattel and real property
LTD "Iskra"		UAH			110	15	Chattel and real property
JSC "Chernigivsky GMZ"	JSC CB Nadra	UAH	13.12.2010	19,50%	1 839	247	Chattel and real property
ALTD "Agrosvitr"		UAH			384	52	Chattel and real property
						36,570	
Current portion of long-term:							
LTD "Mirgorodsky SK"	JSC UGB	UAH	to 31.12.08		21,000	2,825	Chattel and real property
DE "Milkiland - Ukr"	JSC DEIB	EUR	to 31.12.08	12,76%	448	447	Chattel and real property

Company name	Bank	Cur-rency	Maturity date	Interest rate	Amount in original currency	Outstanding balance	Collateral
JSC "Chernigivsky	JSC UPB	UAH	to 31.12.08	19,50%	42,000	5,650	Chattel and real

GMZ”							property
PE "CC "Prometey"	JSC UPB	UAH	to 31.12.08	18,50%	20,000	2,690	Chattel and real property
DE "Aromat"	JSC UPB	UAH	to 31.12.08	18,50%	32 ,620	4,388	Chattel and real property
DE “Milkiland - Ukr”	JSC DEIB	USD	to 31.12.08	11,18%	10,138	6,887	Chattel and real property
						22,886	
Short-term:							
DE “Milkiland - Ukr”	JSC DEIB	USD	26.10.2008	10,83%	14,553	9,886	Not provided
PE "Ros"	JSC DEIB	USD	31.08.2014	10,83%	642	436	Not provided
LTD "Molgrup"	JSC DEIB	USD	31.08.2014	10,83%	1,256	853	Own equipment
LTD "MalKa-Trans"	JSC DEIB	USD	11.09.2013	11,18%	421	286	Chattel and real property
LTD "Iskra"		UAH			1,243	167	Chattel and real property
LTD "Moldim"	JSC DEIB	UAH	07.12.2007	17,00%	54	7	Chattel and real property
“Milkiland Corp”		USD	31.12.2008	no %	5,095	3,461	
						15,097	
X	x	x	x	x	x	**74,553**	x

21) Issued capital and reserves

As at 31 December 2007 the authorized share capital of the Milkiland B.V. consisted of 90,000 ordinary shares with A nominal value of EUR 1 each, amounting to EUR 90,000. A number of 18,000 ordinary shares were issued and paid up upon incorporation..72,000 shares had been paid-up by the Shareholder and were at the process of issuing (EUR 500 were paid-up in July 2007 and EUR 71,500 were paid-up in September 2007). This increase of share capital occurred on 17 January 2008. At December 31, 2007, 1, Inc. (Saint Vincent and the Grenadines) was an only shareholder of Milkiland B.V.

The authorized, issued and paid up share capital of Milkiland Corporation amounts to USD 10 000 divided in 100 ordinary shares with a nominal value of USD 100 each.

At December 31, 2007, 1, Inc. (Saint Vincent and the Grenadines) was as shareholder of Milkiland Corporation and owned 100 shares.

Recalculation adjustment appears during translation of financial statements and results of subsidiaries, which account for their activity in currency of a parent company, in US dollars

22) Related party disclosure

During the reporting period the Group did not have any significant related party transactions. Immaterial related party turnovers were carried out at market prices.

The Group does not act as guarantor of the debt or any other liabilities of related parties.

Related party disclosure refers to all periods presented herein.

23) Financial risk management objectives and policies

Main financial instruments of the Group are bank loans, overdrafts, cash. Primary objective of financial instruments is attraction of funds to perform transactions. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Main risks effecting upon the financial statements results are the risk of current interest rates change, liquidity risk, exchange risk and risk of loans non-repayment. The Group management considers and carries out a policy of management of the risks stated below.

Cash flow interest rate risk

The Group considers the risk of market interest rate change with respect to long-term liabilities with variable interest rate. The Group policy is aimed at attraction of mixed loans with both fixed and variable rates.

Foreign currency risk

Due to significant transaction volumes in Ukraine the Group can be affected by the exchange rate of US dollar towards Ukrainian hryvnia. The Group is sensitive to the effect of the exchange rate change borrowing in other that UAH currency.

The Group performs currency transactions as well. These transactions include: acquisitions and sales in currency rather than the reporting one – hryvnia. About 50% sales proceeds of the Group are collected in currency rather than the reporting currency while almost 95% of costs are carried out in UAH. The Group tries to use forward currency contracts and borrow in currency of sales proceeds recovery that enables to reduce influence of exchange rates fluctuation.

Credit risk

The Group is dealing only with checked solvent independent buyers. It is the Group's policy that all clients for shipment on delay of payment terms, are subject to credit checks.

24) Subsequent events

In the period from January, 1, 2008 to June, 23, 2008 the Group has made a restructuring by means of which Milkiland B.V. became a direct shareholder of Milkiland Corporation:

According to the Preliminary contract on sale and purchase on 13.12.2007, the Contract on sale and purchase on 30.01.2008, and amendments to these contracts 1, Inc. has sold 100 shares of Milkiland Corporation to Axel Management Inc. (Republic of Panama). The purchase price is 2 400 000,00 € in USD by the official rate established by the European Central Bank on the date of payment, that maked 3 523 920,00 USD. Mentioned shares were already paid up on December, 13, 2007.

According to the Share Register of Milkiland Corporation, 1, Inc. has transferred 100 shares to Axel Management Inc. (Republic of Panama) as of 30.01.2008.

According to the Preliminary contract on sale and purchase on 13.12.2007, the Contract on sale and purchase on 30.01.2008, and amendments to these contracts Axel Management Inc. has sold 100 shares of Milkiland Corporation to Milkiland B.V. (The Netherlands). The purchase price is 2 410 000,00 € in USD by the official rate established by the European Central Bank on the date of payment, that maked 3 538 603,00 USD. Mentioned shares were already paid up on December, 13, 2007.

According to the Share Register of Milkiland Corporation, Axel Management Inc. has transferred 100 shares to Milkiland B.V. (The Netherlands) as of 31.01.2008.

According to the Preliminary contract on sale and purchase of corporate rights of the Daughter enterprise "Milkiland-Ukraine" on 03.12.2007 and the Contract on sale and purchase on 31.01.2008, Milkiland Corporation has sold 100% corporate rights of Daughter enterprise "Milkiland-Ukraine" to Milkiland B.V., which is considered full participant of this enterprise after the state registration of change of the Articles of Association of the enterprise. The state registration took place at March 4, 2008. The purchase price is USD 1,980,198. Mentioned corporate rights were already paid up on December, 13, 2007.

On January, 2008 the Group accomplished purchasing of 75,23% of shares of JSC Ostankinsky Dairy Combine from a third parties having paid 41,000 thousand USD. As at 31 December 2007 the prepayment at the amount of EUR 2.9 million has been made to secure the purchase.

On 3 December 2007 the shareholder of the company took a decision about splitting of the currently outstanding shares into ten (10) shares with a nominal value of ten Eurocent (€ 0,10) each and future issuing of 24 100 000 of ordinary shares, amounting to nominal EUR 2 410 000. As at 31 December 2007 the Shareholder has pre-paid EUR 2 410 000 for these shares on the basis of the preliminary agreement on issuing and purchase of shares signed on 04.12.2007.

Milkiland B.V. has been converted from a private limited liability company (BV) into a public limited liability company (NV) on 23.05.2008. Now this company names as Milkiland N.V.

ANNEX I
DEFINED TERMS

Admission	Admission of Shares to trading on the WSE
Agrolite	Dauther Enterprise Agrolite
Agrosvit	Agricultural Limited Liability Company Agrosvit
Allotment Date	The date on which the Offer Shares will be allocated to Investors
AMC	The Antimonopoly Committee of Ukraine
AFM	The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*), the capital market regulatory authority of the Netherlands
Aromat	Daughter Enterprise Aromat
Articles of Association	The articles of association of Milkiland N.V.
Avtek Rent Service	Limited Liability Company Managing Company Avtek Rent Service
Belstat	Belarus State Statistic Authority
Board of Directors	The Board of Directors of Milkiland N.V.
Borznyansky Dairy Plant	Daughter Enterprise Borznyansky Dairy Plant
CBR	Central Bank of Russian Federation
Chernigiv Dairy Plant	Open Joint Stock Company Chernigiv Dairy Plant
CIF	*(Cost, Insurance and Freight)* as defined under INCOTERMS 2000 of the International Chamber of Commerce - a common term in a sales contract meaning that the selling price includes the cost of the goods, the freight or transport costs and also the cost of marine insurance
CIS	The Commonwealth of Independent States
CJSC	Closed joint-stock company under Ukrainian law
CMU	The Cabinet of Ministers of Ukraine
Co – Lead Manager	Concorde (Bermuda) Limited
Company, Issuer, Milkiland N.V.	Milkiland N.V. a public limited liability company, having its registered office at Reinwardtstraat 232, 1093 HP Amsterdam, the Netherlands and registered under number 34278769
CPT	(*Carriage Paid To*) as defined under INCOTERMS 2000 of the International Chamber of Commerce – a common term in a sales contract meaning that the seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.
DDU	(*Delivered Duty Unpaid*) as defined under INCOTERMS 2000 of the International Chamber of Commerce – a common term in a sales contract meaning that that the seller delivers the goods to the buyer to the named place of destination in the contract of sale. The goods are not cleared for import or unloaded from any form of transport at the place of destination. The buyer is responsible for the costs and risks for the unloading, duty and any subsequent delivery beyond the place of destination. However, if the buyer wishes the seller to bear cost and risks associated with the import clearance, duty, unloading and subsequent delivery beyond the place of

	destination, then this all needs to be explicitly agreed upon in the contract of sale.
Daughter Enterprise	Daughter Enterprise under Ukrainian law
Current Report	The official electronic information dissemination service as defined in article 56.1 of the Public Offering Act
DAF	(*Delivery at Frontier*) as defined under INCOTERMS 2000 of the International Chamber of Commerce - a common term in a sales contract meaning that the selling price includes transportation costs to the named place of delivery at the frontier
Derzhkomstat	Ukrainian State Statistics Committee
DMP	Dry milk products
EEA	European Economic Area
ESPI	The electronic public company reporting system in Poland
EU	The European Union
EUR, €	The lawful currency of the European Economic and Monetary Union, of which the Netherlands is a member
FAO	Food and Agriculture Organization of the United Nations
FATF	Financial Action Task Force on Money Laundering
FAPRI	Food and Agriculture Policy Research Institute
Financial Statements	Jointly: (i) semi annual consolidated financial statement of the Company for first half year of 2010 with comparable figures for first half year of 2009; (ii) audited consolidated financial statement of the Company for the year ended 31 December, 2009; (iii) audited consolidated financial statement of the Company for the year ended 31 December, 2008, (iv) Combined financial statements of Milkiland B.V. and Milkiland Corporation for the years ended 31 December 2007 and 2006.
First Kyiv Dairy Plant	Closed Joint Stock Company First Kyiv Dairy Plant
FOB	(*Free On Board*) as defined under INCOTERM 2000 of the International Chamber of Commerce - a common term in a sales contract meaning that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays freight, insurance, unloading costs and transportation from the port of destination to the factory.
FSMA	The United Kingdom Financial Services and Markets Act 2000
General Meeting of Shareholders	The General Meeting of Shareholders of Milkiland N.V.
Glukhiv Butter Plant	Branch Glukhiv Butter Plant of Limited Liability Company Malka-Trans
Gorodnyansky Butter Plant	Closed Joint Stock Company Gorodnyansky Butter Plant
Group Subsidiary	Any direct or indirect subsidiary of Milkiland N.V.
Group, Milkiland Group, Milkiland	Milkiland N.V. together with its direct and indirect subsidiaries
Hryvnia or UAH	The lawful currency of Ukraine
IAS	International Accounting Standards

IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	The International Monetary Fund
Institutional Investors	Investors defined as "qualified investors" pursuant to the Prospectus Directive and investors represented by managers of securities accounts, which were invited to subscribe for the Offer Shares in the Offering within the territory of Poland and selected institutional investors in certain jurisdictions outside Poland, except for US persons, as defined in Regulation S, to whom the Offering is addressed
Interim Financial Statements	Reviewed Financial Statements of Milkiland N.V. for the first half of financial year 2010
International Offering	Offering to institutional investors outside the United States (excluding the Republic of Poland) in reliance on Regulation S under the U.S. Securities Act
Iskra	Agricultural Closed Joint Stock Company Iskra
JSC	Joint Stock Company under Ukrainian law
Kholodokombinat No. 4	Branch Kholodokombinat No. 4 of Private Enterprise Ros
Kolmash	Branch Kolmash of Daughter Enterprise Aromat
Konotop Dairy Plant	Branch Konotopsky Dairy Plant of Limited Liability Company Malka-Trans
Krasnosilske Moloko	Daughter Enterprise Krasnosilske Moloko
Laktis	Branch Laktis of Daughter Enterprise Aromat
Listing Agent	UniCredit CAIB Poland S.A.
Listing Date	First day of trading in Shares on the WSE
LLC	Limited Liability Company under Ukrainian law
Lock Up Period	The period of 180 days after Allotment Date during which the Issuer and the Principal Shareholders have agreed that, it or he will not, subject to certain exceptions, issue, offer, sell, contract to sell, pledge or otherwise transfer or dispose of, or announce the proposed sale of, any Shares or other equity securities or securities linked to the Issuer's share capital
Lviv Dairy Plant	Branch Lviv Dairy Plant of Private Enterprise Consulting Firm Prometheus
Magazyn Moloko	Limited Liability Company Magazyn Moloko
Malka-Trans	Limited Liability Company Malka-Trans
Management Committees	Strategic Committee, Budget Committee and Trading Committee of the Group
Management Team, Management	Management Team of the Group consisting of members of the Management Committees and key operational managers of the Group
Managers	The Sole Global Coordinator, Sole Bookrunner and Stabilisation Manger, and the Offeror
Maximum Price	The maximum price at subscriptions from retail investors will be accepted
M. E.	Milk equivalent

Member State	A Member State of the European Economic Area
Mena Cheese	Branch Mena Cheese of Private Enterprise Consulting Firm Prometheus
MIFiD	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
Milk House	Limited Liability Company Ukrainian Milk House
Milkgroup	Limited Liability Company Milkgroup
Milkiland Corporation	Milkiland Corporation (Panama)
Milkiland-Ukraine	Daughter Enterprise Milkiland-Ukraine
Molochni Vyroby	Limited Liability Company Upravlinska Kompaniya Molochni Vyroby
Molochny Pan	Limited Liability Company Molochny Pan
Moloko Polissya	Limited Liability Company Moloko Polissya
Molprod	Limited Liability Company Molprod
MT	Metric tone
Myrhorod Cheese Plant	Limited Liability Company Myrhorod Cheese Plant
NBP	The National Bank of Poland
NBU	The National Bank of Ukraine
NDS	*Krajowy Depozyt Papierów Wartościowych S.A.* (*KDPW S.A*), the National Depository for Securities – the clearing and settlement institution in Poland
New Shares	Up to 6,250,000 newly issued ordinary shares of Milkiland N.V. without indication of a nominal value, offered by the Company for subscription in the Offering
Nizhyn Dairy Plant	Branch Nizhyn Dairy Plant of Daughter Enterprise Aromat
Offer Price	The offer price per Offer Share determined on the day of the Determination of the Offer Price
Offer Shares	Up to 7,000,000 ordinary bearer shares in the corporate capital of Milkiland N.V. offered in the Offering, including New Shares and Over-allotment Shares.
Offering	The offering of up 7,000,000 Offer Shares, based on this Prospectus
Offeror	UniCredit CAIB Poland S.A.
Okhtyrsky Cheese Plant	Branch Okhtyrsky Cheese Plant of Private Enterprise Ros
Ostankino	Open Joint Stock Company Ostankinsky Dairy Plant
Over-allotment Option	The option that the Selling Shareholder will grant to the Underwriter and the Sole Global Coordinator, Sole Bookrunner and Stabilisation Manger, exercisable for up to 30 days after the announcement of the Offer Price to purchase a number of additional shares representing up to 12% of the New Shares, solely to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions
Over-allotment Shares	Up to 750,000 Shares with a nominal value of EUR 0.1 each,

	the number of additional shares representing up to 12% of the New Shares under the Over-allotment Option
PAP	The Polish Press Agency
PFSA	The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), the capital market regulatory authority of the Republic of Poland.
PLN, Polish zloty	The lawful currency of the Republic of Poland.
Polish Selling Agents	Centralny Dom Maklerski Pekao S.A. and Dom Maklerski Pekao S.A.
Polonsky Dairy Plant	Branch Polonsky Dairy Plant of Private Enterprise Consulting Firm Prometheus
Principal Shareholders	Selling Shareholder and R-Assets Cooperatief U.A.
Prometheus	Private Enterprise Consulting Firm Prometheus
Prospectus	This Prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared or the purpose of the Offering and the Admission
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of the European Union of 4 November, 2003, on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and any relevant implementing measures.
PRC	People Republic of China
Public Offering Act	The Polish Act of 29 July, 2005, on Public Offerings and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies
Regulation 809/2004, Prospectus Regulation	Commission Regulation (EC) no 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended.
Regulation S	Regulation S promulgated under the United States Securities Act of 1933, as amended, governing offers and sales made outside the United States without registration under the US Securities Act
Retail Investors	Individuals who intend to purchase Offer Shares in the Offering
Romny Dairy Plant	Branch Romny Dairy Plant of Private Enterprise Ros
Ros	Private Enterprise Ros
Rosstat	Russian State Statistic Authority
Rouble or RUB	The lawful currency of the Russian Federation
Selling Shareholder	1, Inc. Cooperatief U.A.
Settlement Date	The date of the settlement of the Offering
Shares	The ordinary bearer shares of Milkiland N.V. with nominal value of EUR 0.10
Slavuta Butter Plant	Branch Slavuta Butter Plant of Private Enterprise Consulting Firm Prometheus
Sole Global Coordinator, Sole Bookrunner	UniCredit Bank A.G. (London Branch)

and Stabilisation Manager	
Stabilisation Regulation	European Commission Regulation (EC) no. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments
Starosynyavsky Diary Plant	Branch Starosynyavsky Dairy Plant of Private Enterprise Consulting Firm Prometheus
Stugna-Moloko	Limited Liability Company Stugna-Moloko
Subscription Periods	The period in which Investors may place orders to subscribe for or purchase the Offer Shares
Sumy Dairy Plant	Branch Sumskyy Molochnyy Zavod of Daughter Enterprise Aromat
Syr	Branch Syr of Daughter Enterprise Aromat
Syr-Trading	Limited Liability Company Syr-Trading
Takeover Directive	Directive 2004/25/EC of the European Parliament and of the Council of 21, April, 2004, on takeover bids
Trading in Financial Instruments Act	The Polish Act of 29 July, 2005, on Trading in Financial Instruments)
Transportnyk	Open Joint Stock Company Avtotransportne Pidpryyemstvo Transportnyk
Trading in Financial Instruments Act	The Polish Act of 29 July, 2005, on Trading in Financial Instruments
Trubizhh-Moloko	Limited Liability Company Trubizhh-Moloko
Underwriting Agreement	The agreement in respect of the Offering to be entered into on or about 16 November 2010 by the Issuer, the Selling Shareholder the Managers and the Underwriter
Underwriter	UniCredit Bank Austria A.G.
US Securities Act	The United States Securities Act of 1933, as amended
USD , US $, US Dollars	US dollar, the lawful currency of the United States of America
WSE	The Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*), a regulated market in Poland
WSE Corporate Governance Rules	Polish Principles of Corporate Governance contained in "Best Practices in Public Companies" approved by the WSE
WTO	The World Trade Organization

THE ISSUER

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