## Interim Statement

## Results of the first quarter 2011

Milkiland N.V. hereby publishes the Group's pre-scheduled results of the first three months of 2011.

**Highlights of the 1st quarter 2011**

In the first quarter of 2011, Milkiland developed in line with its annual business plan and successfully reached its planned financial results. Despite the first quarter is usually not representative due to low season, we are now optimistic that the year 2011 will be a success, since Milkiland has proved its ability to handle major challenges foreseen in upcoming year. We ascertained that changes in the government - subsidy system to dairy farmers did not pose a major margin squeeze to Milkiland. Also, we continue to see strong demand for our products and intend to push Milkiland's revenue further upside.

The Group's revenue reached EUR 63.66 million, representing 15% rise compared to the respective period of 2010. Compared to the first quarter of 2010, Milkiland's EBITDA increased by 7% to EUR 9.62 million, while net profit for the Group went up by 41%, to EUR 4.9 million.

*Operational results*

- Farm-gate raw milk price continued correction after a record peak in the second half of 2010
- Ongoing reformation of government subsidy system for dairy farming resulted in no respective payments to farmers in the first quarter of 2011, thus putting additional pressure on milk processors' margins
- Stronger selling prices to a significant extent compensated for negative factors such as lack of farmers' subsidies and rising energy prices
- The Group continued optimization of its product mix in order to build a winning portfolio
- With record export volumes reached in March, the Group stays Ukrainian cheese exporter No. 1, providing for almost one-third of the country's exports

*Financial results*

- Revenue grew by 15% to EUR 63.66 million driven by stronger markets, better pricing and product mix
- Gross profit depressed by 3% on a backdrop of changes in the system of government subsidies to dairy industry
- EBITDA grew by 7% to EUR 9.62 million, while EBITDA margin declined from 16.2% to 15.0% due to seasonal fluctuations and generally higher input costs
- Net profit grew 41% to EUR 4.9 million, as a result of higher EBITDA and less financial cost incurred
- The debt portfolio decreased by almost 18%, to EUR 65.73 million, reflecting the Group's intention to repay the most expensive loans. Short-term loans decreased by 24%, while the portfolio of long-term borrowings were reduced by 10%.

**Segment revenue and performance**
*Cheese & butter segment* contributed approximately 54% to the Group’s total revenue (48% in Q1 2010) and 73% to the total adjusted EBITDA. Segment revenue grew 28% to EUR 34.1 million on a back of increase in volumes and higher than in Q1 2010 prices.

According to official statistics, in the first quarter of 2011 Russia considerably increased its imports of cheese and butter (16% and 19% y-o-y respectively), Ukraine and Belarus being the key suppliers. Milkiland used such trend to its advantage and maintained its positions of the Ukrainian cheese exporter No. 1. Almost one-third of the total Ukrainian cheese exports in the first quarter were contributed by Milkiland.

*Whole-milk dairy* is the second largest segment in terms of revenue and EBITDA providing for 39% and 16% respectively (46% and 22% in Q1 2010). The segment revenue was stable at the level of approximately EUR 25.1 million, while segment EBITDA declined from EUR 2.0 million to EUR 1.5 million, reflecting higher input costs.

*In Ingredients and other products segment*, revenue grew 36% to EUR 4.5 million, while segment EBITDA jumped 141% to EUR 1.2 million in response to an increase in volume sales and a significant increase in global dairy commodity prices.

**Cost of sales and gross profit**
Cost of sales grew by 25% to EUR 44.3 million. The major factor behind this increase was a change in the system of government subsidy system to dairy farms in Ukraine. The first quarter of 2011 was the first period after the adoption of the new Ukrainian Tax Code, which introduced a new system of subsidies to farmers for milk production.

Since 1998 until 31 December 2010, dairy producers were subject to a special VAT regime, as part of state subsidy system to raw milk producers. Ukrainian dairy producers, including the Group’s milk processing facilities, were obliged to use the VAT that they charge on their dairy products solely to pay subsidies to raw milk producers instead of remitting such amounts to the state budget.

In accordance with the new Tax Code adopted in December 2010, starting from the 1st of January 2011, a new mechanism of the government support to raw milk producers should be implemented. Under the new regulations, the government subsidy should be paid directly to raw milk producers by government agencies; therefore, milk processing companies are obliged to pay their VAT to State budget in full. The Government of Ukraine by its Regulation No. 246 dated 2 March 2011 adopted the order of such allocation of subsidies which, inter alia, established some requirements to raw milk producers, namely agricultural companies and individuals. Meanwhile, the new mechanism has not been implemented in full.

As a result the dairy producers from the beginning of the year 2011 lost the possibility partly to cover the raw milk price by government subsidy and were pushed to pay the full price to milk producers by their own funds. This immediately led to an increase in costs and put a pressure on margins.

As a result, the Group’s gross profit was marginally lower in Q1 2011 than in Q1 2010 (EUR 19.4 million and EUR 20.0 million respectively). The gross margin declined from 36.2% to 30.5%. The Group’s management believes that such negative impact of the new subsidy system will disappear in the short-term, as the new mechanism will become effective, and raw milk producers will be able to receive subsidies from the State budget.

**Operating profit and EBITDA**

Despite significant pressure put by rising milk and energy costs by gross margin, Milkiland has managed to increase its EBITDA by 7% to EUR 9.62 million, mainly due to a significant decrease in other operating expenses such as change in provisions and write offs in VAT receivable.

In the first quarter, the Group's EBITDA margin of 15% was somewhat lower than the average expected for 2011, which is explained by rising input costs and low season. The Group's management expects higher EBITDA margins in summer and fall, when the main volume of dairy is produced and sold.

**Financial expense, profit before tax and net profit**

In the first quarter of 2011, the Group continued repaying of the most expensive debt. A 17.7% decrease in total debt, including 24% reduce in the short-term loans and borrowings, contributed to a significant decrease in the finance expense.

As a result, profit before tax grew 41% from EUR 3.9 million to EUR 5.5 million. Net profit grew same 41% to EUR 4.9 million.

**REPRESENTATION**

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 31 March 2011 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the three months ended 31 March 2011 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 13 May 2011

| | | |
|---|---|---|
| A. Yurkevych | V. Rekov | O. Yurkevych |
| P.I. Yokhym | W. S. van Walt Meijer | F.J. Ahern |

**Milkiland N.V.**

Condensed Consolidated Interim Financial Statements

For the three months ended 31 March 2011

**Table of Contents:**

**MILKILAND N.V.**
**Condensed consolidated interim statement of financial position**
(All amounts in euro thousands unless otherwise stated)

| | Notes | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 8 | 30,103 | 37,757 | 6,701 |
| Trade and other receivables | 9 | 23,672 | 22,170 | 19,238 |
| Inventories | | 25,171 | 27,166 | 21,631 |
| Current income tax assets | | 260 | 218 | 258 |
| Other taxes receivable | 10 | 19,439 | 21,061 | 14,254 |
| | | **98,645** | **108,372** | **62,082** |
| **Non-Current Assets** | | | | |
| Goodwill | | 2,151 | 2,117 | 2,151 |
| Property, plant and equipment | 11 | 120,729 | 126,379 | 127,654 |
| Other intangible assets | | 733 | 347 | 359 |
| Deferred income tax assets | | 28,695 | 30,503 | 5,835 |
| Investments in associates | | 0 | 216 | - |
| | | **152,308** | **159,562** | **135,999** |
| **TOTAL ASSETS** | | **250,953** | **267,934** | **198,081** |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 12 | 14,388 | 15,529 | 16,239 |
| Current income tax liabilities | | 428 | 365 | 124 |
| Other taxes payable | | 1,331 | 1,011 | 1,048 |
| Short-term loans and borrowings | 13 | 33,172 | 43,764 | 23,782 |
| | | **49,319** | **60,669** | **41,193** |
| **Non-Current Liabilities** | | | | |
| Loans and borrowings | 13 | 32,559 | 36,072 | 69,930 |
| Deferred income tax liability | | 45,634 | 47,761 | 28,110 |
| Other non-current liabilities | | 438 | 454 | 522 |
| | | **78,631** | **84,287** | **98,562** |
| **Total liabilities** | | **127,950** | **144,956** | **139,755** |
| **Equity attributable to owners of the Company** | | | | |
| Share capital | | 3,125 | 3,125 | 2,500 |
| Share premium | | 48,687 | 48,687 | - |
| Revaluation reserve | | 33,706 | 34,664 | 31,920 |
| Currency translation reserve | | (16,461) | (12,070) | (10,383) |
| Retained earnings | | 48,099 | 42,441 | 20,808 |
| | | **117,156** | **116,847** | **44,845** |
| **Non-controlling interests** | | 5,847 | 6,131 | 13,481 |
| **Total equity** | | **123,003** | **122,978** | **58,326** |
| **TOTAL LIABILITIES AND EQUITY** | | **250,953** | **267,934** | **198,081** |

**MILKILAND N.V.**
**Condensed consolidated interim statement of comprehensive income**
**For the three months ended 31 March**
(All amounts in euro thousands unless otherwise stated)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Revenue | 14 | 63,657 | 55,290 |
| Cost of sales | 15 | (44,269) | (35,298) |
| **Gross Profit** | | **19,388** | **19,992** |
| | | | |
| Government grants recognised as income | | 501 | 97 |
| Selling and distribution expenses | 16 | (5,125) | (4,511) |
| Administration expenses | 17 | (7,455) | (6,357) |
| Other expenses, net | 18 | (390) | (2,677) |
| **Operating Profit** | | **6,919** | **6,544** |
| | | | |
| Finance income | | 353 | 301 |
| Finance expenses | | (2,110) | (3,333) |
| Foreign exchange gain/(loss), net | | 293 | 366 |
| **Profit before tax** | | **5,455** | **3,878** |
| | | | |
| Income tax | 19 | (529) | (392) |
| **Net profit** | | **4,926** | **3,486** |
| | | | |
| **Other comprehensive income/(loss)** | | | |
| Exchange differences on translating to presentation currency | | (4,573) | 4,630 |
| **Total comprehensive income** | | **353** | **8,116** |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the Company | | 4,792 | 3,514 |
| Non-controlling interests | | 134 | (28) |
| | | **4,926** | **3,486** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the Company | | 401 | 7,283 |
| Non-controlling interests | | (48) | 833 |
| | | **353** | **8,116** |
| | | | |
| **Earnings per share, basic and dilluted (in euro cents)** | | **15.33** | **14.06** |

**MILKILAND N.V.**
**Condensed consolidated interim statement of cash flows**
**For the three months ended 31 March**
(All amounts in euro thousands unless otherwise stated)

| | **2011** | **2010** |
|---|---|---|
| *Cash flow from operating activities:* | | |
| Profit before taxation | 5,454 | 3,878 |
| Adjustments for: | | |
| Depreciation and amortization | 2,478 | 2,357 |
| Foreign exchange (gain)/loss | (292) | (366) |
| Loss from write off, revaluation and disposal of non-current assets | 130 | 49 |
| Change in provision and write off of trade and other accounts receivable | 583 | (375) |
| Change in provision and write off of unrealised VAT | 138 | 2,349 |
| Change in provision and write off inventories | 64 | 139 |
| Write off of accounts payable | (223) | (117) |
| Finance costs, net | 1,757 | 3,032 |
| **Operating cash flows before working capital changes** | **10,089** | **10,946** |
| **Changes in assets and liabilities:** | | |
| (Increase)/decrease in accounts receivable | 274 | 4,297 |
| (Increase)/decrease inventories | 600 | (1,365) |
| (Increase) decrease other taxes receivable | 262 | (7,077) |
| (Decrease)/increase in other taxes payable | 183 | 158 |
| (Decrease)/increase in accounts payable | (1,344) | 2,282 |
| **Cash used by operations:** | **10,064** | **9,241** |
| Interest paid | (2,397) | (3,298) |
| Interest received | 353 | 301 |
| Income taxes paid | (282) | (44) |
| **Net cash from operating activity** | **7,738** | **6,200** |
| *Investing activities:* | | |
| Proceeds from sale of property, plant and equipment | 246 | - |
| Acquisition of property, plant and equipment | (1,075) | (685) |
| Acquisition of subsidiaries and non-controlling interest | (937) | - |
| **Net cash from investment activity** | **(1,766)** | **(685)** |
| *Financing activities:* | | |
| IPO costs paid | (782) | - |
| Proceeds from borrowings | 6,494 | 27,468 |
| Repayment of borrowings | (17,391) | (33,381) |
| **Net cash from financial activity** | **(11,679)** | **(5,913)** |
| Effect of exchange rate changes on cash and cash equivalents | (1,947) | 423 |
| **Net increase in cash** | **(7,654)** | **25** |
| Cash at beginning of the period | 37,757 | 6,676 |
| **Cash at the end of the period** | **30,103** | **6,701** |

**MILKILAND N.V.**
**Condensed Consolidated interim statement of changes in equity**
**For the three months ended 31 March**
(All amounts in euro thousands unless otherwise stated)

| | Attributable to equity holders of the company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Foreign currency translation reserve | Revaluation reserve | Retained earnings | Total stockholders' equity | Non-controlling interests | Total equity |
| **Balance at 1 January 2010** | 2,500 | - | (14,152) | 32,689 | 16,525 | **37,562** | **12,648** | **50,210** |
| **Total comprehensive income for the year** | - | - | **3,769** | **-** | **3,514** | **7,283** | 833 | **8,116** |
| Realised revaluation reserve, net of income tax | - | - | - | (769) | 769 | - | - | - |
| **Balance at 31 March 2010** | **2,500** | | **(10,383)** | **31,920** | **20,808** | **44,845** | **13,481** | **58,326** |
| **Balance at 1 January 2011** | **3,125** | **48,687** | **(12,070)** | **34,664** | **42,441** | **116,847** | **6,131** | **122,978** |
| **Total comprehensive income for the year** | **-** | **-** | **(4,391)** | **-** | **4,792** | **401** | **(48)** | **353** |
| Realised revaluation reserve, net of income tax | - | | - | (971) | 971 | **-** | - | **-** |
| Acquisition of subsidiaries and non-controlling interests | - | | - | 13 | (105) | **(92)** | (236) | **(328)** |
| **Balance at 31 March 2011** | **3,125** | **48,687** | **(16,461)** | **33,706** | **48,099** | **117,156** | **5,847** | **123,003** |

## 1 The Group and its operations

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the 3 months ended 31 December 2011 for Milkiland N.V. (the “Company”) and its subsidiaries (together referred to as the “Group” or “Milkiland”).

The financial statements were approved by the Board of Directors on 13 May 2011 and are subject to adoption by the shareholders during the Annual General Meeting.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

As at 31 December 2010 the Company is owned by 1, Inc. Cooperatief (holding 72.8% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

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

(All amounts in euro thousands unless otherwise stated)

For the period from 31 December 2010 to 31 March 2011 the Company had the following direct and indirect subsidiaries:

| **Name** | **Location** | **31 March 2011** | **31 December 2010** |
|---|---|---|---|
| Milkiland Corporation | Panama | 100% | 100% |
| JSC Ostankino Dairy Combine | Russia, | 93,87% | 93,87% |
| DE Milkiland Ukraine | Ukraine | 100% | 100% |
| DE Aromat | Ukraine | 100% | 100% |
| PE Prometey | Ukraine | 100% | 100% |
| PE Ros | Ukraine | 100% | 100% |
| LLC Malka-trans | Ukraine | 100% | 100% |
| LLC Mirgorodsky Cheese Plant | Ukraine | 100% | 100% |
| JSC Kyiv Milk Plant #1 | Ukraine | 100% | 100% |
| JSC Chernigiv Milk Plant | Ukraine | 76,0% | 76,0% |
| CSC Gorodnia Milk Plant | Ukraine | 91,37% | 91,37% |
| LLC Agrosvit | Ukraine | 100,0% | 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 | 100% | 83,73% |
| 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% |
| LLC Bachmachregionpostach | Ukraine | 100% | 100% |
| LLC Avtek Rent Service | Ukraine | 100% | 100% |
| AF Konotopska | Ukraine | 100% | 45% |

During the three months ended 31 March 2011, the Group finalized acquisition of agricultural company AF Konotopska and acquired all non-controlling interests in agricultural companies LLC Agrosvit and LLC Moloko Polissia (note 6).

## 2 Operating environment of the Group

***Operating environment of the Group.***

Russia and Ukraine represent major geographic areas where the Group operates. Both Russia and Ukraine display certain characteristics of emerging markets, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on both economies and the financial situation in the financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian and Ukrainian economies experienced moderate recoveries of economic growth. The recoveries was accompanied by lower refinancing rates, stabilisation of the exchange rates of the local currencies against major foreign currencies, and increased liquidity levels in the banking sectors.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

The tax, currency and customs legislation within the Russian Federation is also subject to varying interpretations and frequent changes. The future economic directions of Russia and Ukraine are largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the respective governments, together with tax, legal, regulatory and political developments.

Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business.

## 3 Summary of significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2010.

(All amounts in euro thousands unless otherwise stated)

*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 three months ended 31 March 2011 | 1.3673 | 10.8625 | 41.4132 |
| As at 31 March 2011 | 1.4207 | 11.2869 | 39.7028 |
| As at 31 December 2010 | 1.3362 | 10.6384 | 40.3331 |
| Average for three months ended 31 March 2010 | 1.3843 | 11.0347 | 41.4132 |
| As at 31 March 2010 | 1.3334 | 10.6821 | 43.8191 |

*Source: Management calculation based on statistics of European Central Bank, Ukrainian National Bank and Russian Central Bank*

*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.

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.

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 Segment information

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

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

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

- *Cheese&butter*. This segment is involved in production and distribution of cheese and butter. It is the largest Group's segment;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products.

Other segments include production and distribution of dry milk, agricultural products, ice-cream and other products, which - although only contributing a relatively small amount of revenue to the Group, are monitored by the strategic chief operating decision-maker as well. Those results are summarised in ingredients segment.

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.

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

(All amounts in euro thousands unless otherwise stated)

The segment information by country for the three months ended 31 March is as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Russia** | **Ukraine** | **Total** | **Russia** | **Ukraine** | **Total** |
| Total segment revenue | 24,415 | 46,036 | 70,451 | 25,191 | 34,513 | 59,704 |
| Inter-segment revenue | - | (6,794) | (6,794) | - | (4,414) | (4,414) |
| **Revenue from external customers** | **24,415** | **39,242** | **63,657** | **25,191** | **30,099** | **55,290** |
| **Adjusted EBITDA** | **683** | **8,934** | **9,617** | **1,090** | **7,877** | **8,967** |
| Depreciation and amortisation | 817 | 1,662 | 2,479 | 817 | 1,539 | 2,356 |

(All amounts in euro thousands unless otherwise stated)

The segment information by product for the three months ended 31 March is as follows:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cheese & butter | Whole-milk products | Ingredients | Total | Cheese & butter | Whole-milk products | Ingredients | Total |
| **Revenue from external customers** | **34,112** | **25,083** | **4,462** | **63,657** | **26,579** | **25,434** | **3,277** | **55,290** |
| **Adjusted EBITDA** | **6,948** | **1,513** | **1,156** | **9,617** | **6,522** | **1,965** | **480** | **8,967** |
| Depreciation and amortisation | 820 | 1,198 | 207 | 2,225 | 761 | 1,167 | 194 | 2,122 |

A reconciliation of adjusted EBITDA to profit before tax:

| | 2011 | 2010 |
|---|---|---|
| **Adjusted EBITDA** | **9,617** | **8,967** |
| Other segments EBITDA | (89) | (18) |
| **Total segments** | **9,527** | **8,949** |
| Depreciation and amortisation | (2,478) | (2,356) |
| Non-reccuring consulting and legal fees | - | |
| Discounts on VAT bonds | - | - |
| Loss/(gain) from disposal and impairment of non-current assets | (130) | (49) |
| Finance costs - net | (1,757) | (3,032) |
| Foreign exchange loss | 293 | 366 |

| | | |
|---|---|---|
| **Profit before tax** | **5,455** | **3,878** |

## 6 Acquisition of subsidiary and non-controlling interests

### Acquisition of subsidiary

On 27 January 2011 the Group finalized acquisition of Ukrainian agricultural company AF Konotopska, having acquired outstanding 55% of company shares. As a result, the Group's equity interest in AF Konotopska increased from 45% to 100%.

The purchase consideration consisted only of cash at the amount of EUR 618 thousand.

(All amounts in euro thousands unless otherwise stated)

Identifiable assets acquired and liabilities assumed:

| | |
|---|---|
| Cash and cash equivalents | 1 |
| Accounts receivable | 6 |
| Taxes receivable | 4 |
| Inventories | 443 |
| PPE | 516 |
| Lease land rights | 419 |
| Accounts payable | (257) |
| Taxes payable | (9) |
| **Total net identifiable assets** | **1,123** |

The fair value of land lease rights have been determined on a provisional basis.

The result of the acquisition is summarized in the following table:

| | |
|---|---|
| Cash paid | 618 |
| Fair value of existing interest | 505 |
| Fair value of identifiable assets | (1,123) |
| **Goodwill** | - |

Acquisition related costs are insignificant.

**Acquisition of non-controlling interests**

During the three months ended 31 March 2011 the Group acquired non-controlling shares in agricultural companies: 16.27% in LLC Moloko Polissya and 24% in LLC Agrosvit for the total amount of EUR 319 thousand. As a result, the Group's equity interest in these entities increased to 100%. The carrying amount of these companies' net assets in the Group financial statements on the date of acquisition was EUR 1,101 thousand. The Group recognized a decrease in non-controlling interests of EUR 236 thousand and decrease in owners' equity at EUR 92 thousand.

(All amounts in euro thousands unless otherwise stated)

The following table summarises the effect of acquisition:

| | **LLC Moloko Polissya** | **LLC Agrosvit** | **Total** |
|---|---|---|---|
| The carrying amount of net assets at acquisition | 540 | 617 | 1,157 |
| Shares acquired | 16.27% | 24% | |
| Share of net assets acquired | 88 | 148 | 236 |
| Acquisition cost | (315) | (13) | (328) |
| Result of acquisition | **(227)** | **135** | **(92)** |

(All amounts in euro thousands unless otherwise stated)

## 7 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “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 three months ended 31 March were as follows:

| *Entities under common control:* | 2011 | 2010 |
|---|---|---|
| Sales revenue | 549 | 169 |
| Finance expenses on other borrowings | - | (634) |

| *Ultimate shareholders:* | 2011 | 2010 |
|---|---|---|
| Finance expenses on other borrowings | (12) | (46) |

The outstanding balances due from/(to) related parties as of 31 March 2011, 31 December 2010 and 31 March 2010 were as follows:

| *Entities under common control:* | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| Trade accounts receivable | 163 | 287 | 210 |
| Advances paid | - | - | - |
| Other accounts receivable | 272 | 272 | - |
| Other accounts payable | - | - | (1,289) |
| Non-current loans and borrowings from non-financial institutions | - | - | (20,340) |

(All amounts in euro thousands unless otherwise stated)

| *Ultimate shareholders:* | **31 March 2011** | **31 December 2010** | **31 March 2010** |
|---|---|---|---|
| Current loans from non-financial institutions | - | 2,096 | 1,229 |

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 for three months ended 31 March 2011 is EUR 181 thousand (2010: EUR 151 thousand).

(All amounts in euro thousands unless otherwise stated)

## 8 Cash and cash equivalents

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

| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| Short term deposits | 25,024 | 27,736 | 4,471 |
| Cash in bank and cash on hand | 5,079 | 10,021 | 2,230 |
| | **30,103** | **37,757** | **6,701** |

As at 31 March 2011, there were no pledged cash and cash equivalents (31 December 2010: EUR 4,606 thousand) in respect of short-term or long-term bank loans (Note 13).

## 9 Trade and other accounts receivable

| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| Trade accounts receivable | 20,326 | 20,178 | 17,306 |
| Other financial assets | 256 | 272 | - |
| Allowance for doubtful debts | (2,484) | (2,391) | (1,974) |
| ***Total trade accounts receivable*** | **18,098** | **18,059** | **15,332** |
| Other financial receivables | - | - | - |
| ***Total financial assets within trade and other receivables*** | **18,098** | **18,059** | **15,332** |
| Advances issued | 3,981 | 3,269 | 3,097 |
| Other receivables | 5,041 | 4,228 | 4,251 |
| Allowance for doubtful debts | (3,448) | (3,386) | (3,442) |
| | **23,672** | **22,170** | **19,238** |

(All amounts in euro thousands unless otherwise stated)

The Group does not hold any collateral as security.

## 10 Other taxes receivable

| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| VAT recoverable | 19,287 | 20,778 | 14,014 |
| Payroll related taxes | 43 | 86 | 72 |
| Other prepaid taxes | 109 | 197 | 168 |
| | **19,439** | **21,061** | **14,254** |

VAT recoverable as at 31 March 2011 is shown net of provision at the amount of EUR 7,508 thousand (31 December 2010: EUR 8,241 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 30% of VAT refund claimed by the Group from the Ukrainian Government calculated based on the previous trends of VAT recoverability.

## 11 Property, plant and equipment and intangible assets

During three months ended 31 March 2010 the Group acquired assets with a cost of EUR 1,060 thousand (2010: EUR 685 thousand), which is mainly production equipment and biological assets.

(All amounts in euro thousands unless otherwise stated)

## 12 Trade and other payables

| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| Trade payables | 7,682 | 7,780 | 10,963 |
| Wages and salaries payable | 1,279 | 1,234 | 1,318 |
| Accounts payable for fixed assets | 123 | 193 | 324 |
| Accrual for audit fees and consulting services | 103 | 616 | 368 |
| Accruals for bonuses | 1,760 | 1,871 | - |
| Interest payable | 66 | 365 | 441 |
| **Total financial liabilities withing trade and other payable** | **11,013** | **12,059** | **13,414** |
| Advances received | 1,248 | 1,074 | 654 |
| Other accounts payable | 753 | 971 | 1,364 |
| Accruals for employees' unused vacations | 1,374 | 1,425 | 807 |
| | **14,388** | **15,529** | **16,239** |

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

(All amounts in euro thousands unless otherwise stated)

## 13 Interest bearing loans and borrowings

| | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|---|---|---|---|
| **Current** | | | |
| Interest bearing loans due to banks | 25,190 | 28,394 | 17,113 |
| Loans from non-financial institutions | - | 5,742 | 1,228 |
| | **25,190** | **34,136** | **18,341** |
| **Short-term portion of long-term debt** | | | |
| Interest bearing loans due to banks | 7,888 | 9,518 | 5,441 |
| Finance leases | 94 | 110 | - |
| | **7,982** | **9,628** | **5,441** |
| **Total current borrowings** | **33,172** | **43,764** | **23,782** |
| **Non-current** | | | |
| Interest bearing loans due to banks | 29,278 | 32,566 | 39,037 |
| Loans from non-financial institutions | 3,092 | 3,287 | 30,893 |
| Finance leases | 189 | 219 | - |
| **Total non-current borrowings** | **32,559** | **36,072** | **69,930** |
| **Total borrowings** | **65,731** | **79,836** | **93,712** |

Movement in loans and borrowings during the three months ended 31 March was as follows:

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 79,836 | 92,935 |
| Obtained new loans and borrowings | 6,494 | 27,468 |
| Repaid loans and borrowings | (17,391) | (33,381) |
| Forex exchange gain | (3,208) | 6,690 |

(All amounts in euro thousands unless otherwise stated)

| | | |
|---|---|---|
| **Closing balance** | **65,731** | **93,712** |

## 14 Revenue

Sales revenue by product during the three months ended 31 March was as follows:

| | **2011** | **2010** |
|---|---|---|
| Cheese&butter | 34,112 | 26,579 |
| Whole milk product | 25,083 | 25,434 |
| Ingredients | 4,462 | 3,277 |
| | **63,657** | **55,290** |

Regional sales revenue during the three months ended 31 March was as follows:

| | **2011** | **2010** |
|---|---|---|
| Russia | 38,282 | 36,277 |
| Ukraine | 22,718 | 16,770 |
| Other | 2,657 | 2,243 |
| | **63,657** | **55,290** |

## 15 Cost of sales

| | **2011** | **2010** |
|---|---|---|
| Raw and other materials | 32,622 | 29,438 |
| Wages and salaries | 1,777 | 2,074 |
| Depreciation | 2,134 | 2,033 |

(All amounts in euro thousands unless otherwise stated)

| | | |
|---|---|---|
| Transportation costs | 1,744 | 1,401 |
| Gas | 1,608 | 1,329 |
| Electricity | 883 | 705 |
| Social insurance contributions | 629 | 549 |
| Repairs of property, plant and equipment | 301 | 320 |
| Water | 91 | 106 |
| Other | 195 | 162 |
| Changes in finnished goods and work in progress | 2,285 | (2,819) |
| | **44,269** | **35,298** |

(All amounts in euro thousands unless otherwise stated)

## 16 Selling expenses

| | **2011** | **2010** |
|---|---|---|
| Transportation costs | 2,399 | 1,958 |
| Security and other services | 622 | 427 |
| Marketing and advertising | 325 | 542 |
| Wages and salaries | 1,124 | 1,043 |
| Social insurance contributions | 378 | 285 |
| Licence fees | 71 | 50 |
| Rental costs | 54 | 42 |
| Depreciation and amortisation | 28 | 29 |
| Other | 124 | 135 |
| | **5,125** | **4,511** |

## 17 Administrative expenses

| | **2011** | **2010** |
|---|---|---|
| Wages and salaries | 2,582 | 1,996 |
| Social insurance contributions | 598 | 433 |
| Taxes and other charges | 541 | 338 |
| Representative charges | 518 | 832 |
| Other utilities | 731 | 606 |
| Bank charges | 306 | 678 |
| Repairs and maintanance | 338 | 260 |
| Depreciation and amortisation | 316 | 295 |
| Consulting fees | 380 | 130 |

(All amounts in euro thousands unless otherwise stated)

| | | |
|---|---|---|
| Security and other services | 195 | 113 |
| Transportation costs | 351 | 162 |
| Property insuarance | 153 | 125 |
| Licence fees | 154 | 112 |
| Rental costs | 97 | 48 |
| Communication | 66 | 55 |
| Office supplies | 23 | 24 |
| Other | 106 | 150 |
| **Total** | **7,455** | **6,357** |

(All amounts in euro thousands unless otherwise stated)

## 18 Other expenses, net

| | **2011** | **2010** |
|---|---|---|
| Other operating income | (471) | (209) |
| Gain/(loss) from disposal of non-current assets | 130 | 49 |
| Gain from write off of accounts payable | (223) | (117) |
| Penalties | 97 | 42 |
| Loss from write off of inventories | 63 | 139 |
| Change in provision and write off of trade and other accounts receivable | 583 | (375) |
| Change in provision and write off of VAT receivable | 138 | 2,349 |
| Other expenses | 73 | 799 |
| | **390** | **2,677** |

## 19 Income tax

| | **2011** | **2010** |
|---|---|---|
| Current income tax expense | 467 | 211 |
| Deferred tax expense | 62 | 181 |
| **Income tax expense** | **529** | **392** |

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 31 March 2011 based on the evaluation the Company determined the provision at the amount of EUR 3,805 thousand (31 December 2010: 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 31 March 2011, most of the Group's property is insured.

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

**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 166,679 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 EUR 3,063 thousand at 31 March 2011 (31 December 2010: EUR 3,016 thousand). Management is planning to send a public offer by the end of 2011.

**Guarantees for third parties**

As at 31 March 2011 the Group had a guarantee of EUR 3,203 thousand (31 December 2010: EUR 3,881 thousand) granted for the benefit of third party under the credit line provided by OTP bank.

**Contingent liability in respect of bonus payment**

In January 2011, the Board of Directors of the Group approved the annual bonus of the CEO at the amount of 8% from the annual audited Group profit for 2010. The amount of bonus is preliminary estimated at EUR 1,919 thousand will be expensed as soon as the annual report for 2011 is approved by the AGM.

In January 2011 EUR 1,400 thousand has been paid and is included in advances issued (note 9).

## 21 Earnings per share

| | **2010** | **2009** |
|---|---|---|
| *Numerator* | | |
| Earnings used in basic and diluted EPS | 4,926 | 3,486 |
| *Denominator, in thousand* | | |
| Weighted average number of shares used in basic and dilluted EPS | 31,250 | 25,000 |

## 22 Subsequent events

In April 2011 the Group settled the long-term loan from non-financial institution beering 15% interest rate per annum and redeemable in 2012 at the total amount of EUR 3,092 thousand.

In April 2011 the Group concluded an agreement to purchase milk production equipment for approximately EUR 1.35 million.