Preliminary overview of 2011 results and 2012 outlook

Press Release

Kyiv, 14th February 2012

Comment by Fredrick Aherne, CEO, Milkiland N.V.
"The year 2011 proved to be a tough year for the dairy industry in the CIS countries. A number of negative trends challenged producer margins in Russia and Ukraine. However, despite a challenging operating environment, Milkiland proved to be a fundamentally strong business generating healthy margins well above the historical market averages. Now when the situation is improving we are confident that 2012 will contribute new drivers to our growth."

Operating environment in 2011

Upward pressure on costs

From the market perspective, 2011 was a challenging year for CIS dairy producers. Upward pressure on producer costs both in Russia and Ukraine, as well as negative macroeconomic trends for Ukrainian cheese exports were the key factors questioning producer performance.
Continuing stagnation of raw milk production in Russia and Ukraine, as well as high feed prices in the first half of the year resulted in a high level of milk prices. In Russia, raw milk priced c. 15% higher y-o-y, despite a feeble summer downward correction. In Ukraine, milk prices were stable y-o-y, but de-facto cancellation of government subsidies to dairy farmers led to an increase in producer costs. These factors resulted in a margin squeeze for the Group.

Downward pressure on sales

Ukrainian cheese sales in Russia were also somewhat affected by the Russian Rouble depreciation in late-August through late-September. Russian currency lost c.14% during the above period when the Central Bank of Russia did not put any efforts to offset some negative expectations in the financial market which provoked the capital outflow from the country. This depreciation put a pressure on export margins of the Group in the second half of the year.
Meanwhile, the Group retained a position of #1 Ukrainian cheese exporter with the share in the total export of this product in volume terms of c. 29%.

Management Efforts Aimed to Offset the Pressure on Margins

Supply-Side

In order to offset the increase in input costs, as well as to ensure the availability of quality raw milk, Milkiland management elaborated and implemented a new milk sourcing plan for Ukrainian facilities, where the major part of our products are produced. The new milk

sourcing plan covered two areas, (a) further vertical integration of the Group's manufacturing and in-house milk production and (b) support of milk cooperatives in the regions of operations.
In 2011, four new agricultural subsidiaries were acquired; arable land bank grew by one-third to c. 21,000 hectares. Milking cow headcount increased to 2,900, while in-house raw milk production more than doubled to c. 11,000 tons (approximately 2% of the Group's raw milk intake). In order to make the share of in-house milk material, the Group's management plans to further develop the agricultural segment. For 2012, construction of two modern dairy farms is planned, with the total capacity of milking 6,000 cows.

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

In late December 2011, Ukrainian Parliament adopted amendments to the Tax Code putting farmer subsidies back to force starting from January 1, 2012. As a result of subsidy re-introduction, input costs for raw milk started to decline as early as in January.

The Group's management remains committed to a diverse supply chain including working with cooperatives, and increasing vertical integration as an important profitability and growth driver for Milkiland, which will add value to the Group's business through quality and cost control.

Demand-Side
In order to build a winning portfolio of products with the highest marginal contribution, in 2011 the Group continued the product mix optimization started in 2010. More than 30% of less profitable and outdated SKUs were eliminated from the portfolio. At the same time, the Group introduced new products, mainly, in the WMP segment.
In 2012, the Group's marketing efforts will be focused on further optimization of our product portfolio in cheese&butter segment and introduction of new thermostatic products, as well as promotion of our core brand, Dobryana.

In addition to product mix optimization, in 2011 the Group's management focused on cost optimization at Milkiland Ukraine and at Ostankino, where sales volumes were increased due, among other things to a new supply contract with municipal authorities of Moscow. Starting from the third quarter of 2011, these combined efforts led to an increased profitability at Ostankino.

Financial performance

Revenue

Milkiland delivered strong growth in cheese & butter segment, as well as in dry milk products, in terms of both volume and price. In WMP, product mix optimization stabilized sales in terms of volume, but improved prices. As a result of these developments, revenue grew by c.10% to EUR 284 million* driven by stronger markets and better sales.

Gross profit

Gross profit was depressed by 18% on to c. EUR 80 million* a backdrop of de-facto cancellation of the government subsidies to dairy industry in Ukraine and high raw milk prices in Russia, and the impact of the depreciation of the Russian Rouble.

EBITDA

EBITDA was depressed by 23% to EUR 35 million*, while EBITDA margin declined to c. 12% on the back of higher input costs and negative macroeconomic conditions for cheese export to Russia. The Group's management estimates that EBITDA loss due to absence of subsidies in 2001 was c. EUR 12 million; export EBITDA drop due to Russian Ruble depreciation in Q3 and Q4 2011 was c. EUR 3 million. According to management estimates re-introduction of the government subsidies to dairy farmers in Ukraine may add at least 2 p.p. to Milkiland's EBITDA margin in 2012.

Outlook for 2012

After re-introduction of government subsidies for milk farmers in Ukraine and based on the forecast rising consumer demand in Russia, the Group's management is positive about 2012. In order to take the full advantage of this situation, the Group's management will focus on cost optimization, on one hand, and product portfolio improvements, on the other.
On the cost-side, the new milk sourcing system launched in 2011 will be further developed. Two new state-of-the-art cattle farms will be constructed to house 6,000 milking cows in order to boost the in-house milk production. Such an increase will provide for higher profitability for the group since production costs for in-house milk are 50% cheaper than that purchased from farms. Developing in-house milk production is also a vital factor towards quality control.

On the product mix-side, Milkiland will continue product mix optimization towards modern products with higher marginal contribution. The Group's marketing efforts will be focused on promotion of cheese and thermostatic products under Dobryana brand.

The Group's development will be financed with IPO proceeds and borrowings. In December 2011, the Group signed a new syndicated loan agreement with a syndicate of international banks. The financing in an amount of up to USD 100 million comprise a senior secured long term loan for 4 years with a 12-month grace period. The availability period for loan drawdown is 9 months (270 days). The proceeds from this facility will be used to repay the existing Ukrainian banks loans (USD 35 million) and for general corporate purposes, including working capital needs.

Comment by Anatoliy Yurkevych, Chairman of the Board of Directors, Milkiland N.V.

"In 2012, Milkiland's management will be actively investigating dairy markets in Ukraine, Russia, Belarus and Poland in a search for attractive M&A targets. Last year's challenging market situation has down the expectations of owners of the non-integrated dairies, and we are confident that this is the right time for industry consolidation. And Milkiland can take an active part in this consolidation."

Impact of the Rospotrebnadzor export restrictions on Ukrainian cheese

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

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

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

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

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

***The financial figures for the year 2011 stated above are preliminary and unaudited**

About Milkiland N.V.

Milkiland is a TOP-5 CIS diversified dairy producer operating in Russia and Ukraine, offering a wide range of dairy products such as fresh dairy, cheese and butter, to satisfy consumers in their everyday needs for healthy and tasty foods.
In Russia, the company produces fresh dairy products at Moscow-based OJSC "Ostankino Dairy Combine" and sells under Ostankinskaya brand. Also, Dobryana Ukrainian cheese is sold in the most Russian regions. In Ukraine, the company operates 10 plants and offers a wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands. Milkiland exports dairy products from Ukraine to over 30 countries. Shares of Milkiland N.V. have been listed on the Warsaw Stock Exchange since December, 6, 2010.

For additional information please contact:

Sergey Trifonov,
IR Officer, Milkiland N.V.

tel. + 380 67 327 9838 mob.
e-mail: strifonov@milkiland.com