Report of the Board of Directors on operations in the first half of 2012

Contents

Overview of Operations in H1 2012 and Outlook for the Year 2012

Strategy and Operations: Changes for the Better and Russian Challenges

Since the beginning of 2012, subsidies to dairy farmers were partially re-introduced in Ukraine, resulting in positive impact on margins for Ukrainian business of Milkiland. Taking into account time delay connected with implementation and operation cycle, the Group fully benefited from re-introduced of subsidies starting from the second quarter of 2012. For more information regarding the change in the system of government support of producers of raw milk refer to section *Material Factors and Events*.

In H1 2012, the Group's business was adversely affected by the trade conflict with Russia in connection with cheese imports. After several public allegations in respect of quality of Ukrainian cheese, Russian Federal Service on Customer's Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor) banned seven Ukrainian cheese exporters, including Milkiland's Mena cheese plant.

This ban for Mena was in place since the beginning of February until May 2012 and partially limited the ability of Milkiland to sell cheese in the Russian market. According to management estimations, net revenue losses from Rospotrebnadzor's ban in H1 2012 were c. EUR 16 mln, while EBITDA losses comprised to about EUR 3 mln. Despite the conflict was settled, implications from imports ban will continue by the end of 2012, since exports volumes recovery will take some time. For more information regarding the Russian cheese ban refer to section *Material Factors and Events*.

On the positive side, Rospotrebnadzor's restrictions triggered correction of raw milk prices in Ukraine. For additional information regarding the raw milk price trend in Ukraine as well as in Russia refer to section *Dairy Markets*.

In spite of the counter-trends described above, in H1 2012 Milkiland generated consolidated revenue of EUR 134 mln (+5% compared to H1 2011) and earned EBITDA of EUR 16.2 mln – 13% less compared to H1 2011. It's important to know that the direct comparison of H1 EBITDA for 2012 and 2011 is somewhat misleading, since in Q1 2011 the margins benefited from a "subsidy" milk purchases made in the end of 2010, while in Q1 2012 the situation was the opposite. In Q2 2012 the Group posted EBITDA of EUR 9.6 million, 4% more than in Q2 2011.

The Group has retained its leading market position both in Ukraine and Russia. While cheese sales were depressed by Russian import ban which slowed the revenue growth in cheese&butter segment (0.6% growth compared to H1 2011), whole milk products became main growth booster adding 12% in revenues compared with H1 2011, mainly because of the increased sales in Russia. Ingredients and other sales increased by 4% due to better pricing and sales of agriproducts.

Based on the investigation of Ukraine, Russia and neighbor countries, Milkiland has acquired Ostrowia cheese making plant in the Republic of Poland. After full launch of this modern production site, the Group will target its natural markets of Russia and Ukraine from Poland, thus addressing risks of Russian import bans. Also, Ostrowia will open access to the EU, the largest dairy market globally. For more information regarding this deal refer to section *Material Factors and Events*.

In line with the mid-term strategy to develop a sustainable raw milk supply system, in the first half of 2012 the Group invested c. EUR 13 million in construction of two modern dairy farms housing up to 8,000 milking cows. Upon reaching their full capacity, these farms will supply annually up to 60,000 tons of high-quality milk, almost 15% of Milkiland's current needs in Ukraine.

There were also investments poured into Milkiland's existing farms. In H1, 2012 the Group increased its overall cattle headcount to 6,900 heads resulting in more than doubling in raw milk output for the period to 8,400 tons.

In July and August 2012, the Group's agricompanies harvested c. 20,000 tons of early grains – almost twice as much as in the same period of 2011. This is sufficient to feed the Group's existing livestock without external purchases.

Milkiland also continued supporting its partner agricultural milk cooperatives. After reaching necessary scale in 2011, the cooperatives in 2012 focus on production efficiency and development of partner programs with Milkiland. In H1 2012, the cooperatives supplied about 22% of raw milk purchased by Milkiland in Ukraine.

Dairy Markets

The first half of 2012 was a time of a number of positive developments in the dairy market, however somewhat offset by restrictions imposed on Ukrainian cheese exports to Russia.

Raw milk supply turned better both in Russia and Ukraine, resulting from state support programs being implemented in the past years. In Russia, milk production in H1 2012 has grown by 3.8%, while Ukraine has demonstrated 2.5% growth – the first time in two last decades. The growth came from farming segment while supply from individuals continues stagnation.

Milk prices in H1 2012 were generally lower than in the same period of 2011, resulting from global trends and local circumstances. In Russia, milk prices decreased by 19% from the beginning of the year, and in average were lower by 3-6% than in 2011. In Ukraine, milk prices slumped by 31% and were on average 3-10% lower than in the previous year – mostly due to lower processors' demand caused by the Russian import ban. For more information on the Russian temporary ban on Ukrainian cheese exports, refer to section *Material Factors and Events*.

On the demand side, export restrictions imposed by the largest importer, Russia, led to a limited demand for Ukrainian cheese. As a result, in the first half of 2012 Ukrainian cheese exports were 15% lower than in 2011 and cheese producers cut production by 9% y-o-y and switched to butter and milk powder. Some excessive volumes of cheese were sold on the Ukrainian market. Despite the increased supply, the market resisted price decline. Whole milk products production and sales were relatively stable, while increasing demand pushed prices upward.

In Russia, domestic production of cheese grew 6%, while imports declined on the back of the above restrictions. Cheese prices resisted the traditional seasonal drop, resulting in levels well above historical averages. Revived demand also encouraged a 7% increase in WMP production, prices for which were 4-7% higher than in H1 2011.

The widening gap between the incoming farm-gate price and retail prices for finished goods gave a chance to both Russian and Ukrainian dairy processors in the next periods to restore margins hit by the skyrocketing raw milk prices of the past two years.

Milkiland’s Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2012 and 2011 in thousands Euro.

Selected financial data

	6m2012	6m2011
I. Revenues	134,100	127,490
II. EBITDA	16,215	18,711
III. Operating profit	9,559	10,908
IV. Profit (loss) before tax	7,344	7,020
V. Net profit (loss)	6,258	6,689
VI. Cash flows provided by (used in) operating activities	7,455	10,224
VII. Cash flows used in investing activities	(16,590)	(4,250)
VIII. Cash flows (used in) provided by financing activities	(12,329)	(14,875)
IX. Total net cash flow	(21,464)	(8,901)
X. Total assets	327,716	250,747
XI. Current liabilities	46,149	54,460
XII. Non-current liabilities	106,171	72,217
XIII. Share capital	3,125	3,125
XIV. Total equity	175,396	124,070
XV. Weighted average number of shares	31,250,000	31,250,000
XVI. Profit (loss) per ordinary share, EUR cents	18.01	20.79

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6m 2012	6m 2011
Revenue	134,100	127,490
Change in fair value of biological assets	59	1,356
Cost of sales	(99,486)	(96,628)
Gross profit	**34,673**	**32,218**
Operating income (expense), net	(25,114)	(21,310)
Operating profit	**9,559**	**10,908**
Net finance expense and other non-operating income (expense)	(2,215)	(3,888)
Profit (loss) before tax	7,344	7,020
Income tax (expense) benefit	(1,086)	(331)
Net profit (loss)	**6,258**	**6,689**
Other comprehensive income (loss)	3,324	(5,279)
Total comprehensive income	**9,582**	**1,410**
Net profit (loss) attributable to equity holders of the parent company	**5,628**	**6,496**
Weighted average common shares outstanding, in thousand	31,250,000	31,250,000
Earnings per share, basic and diluted (EUR)	**18.01**	**20.79**

Revenue

In the first half of 2012, the Group's revenue grew c. 5% y-o-y to EUR 134.1 million, mainly on the back of better pricing and better WMP sales in Russia. Rebranding of Dobryana WMP product line made in 2011 for the Ukrainian market, as well as streamlining of the WMP product portfolio, led to a considerable rise in average prices for these products in Ukraine. Import restrictions on Ukrainian cheese imposed by Russian authorities in February through May limited the growth in cheese sales revenue. For more information on the above changes, refer to sections *Overview of Operations in H1 2012 and Outlook for the Year 2012* and *Material Factors and Events during the Reporting Period*.

In the total revenue, cheese and butter sales accounted for 51%, whole milk products for 41% (53% and 39% respectively in the first half of 2011).

Breakdown of the Group's consolidated revenue by product in H1 2011 and H1 2010

	2012		2011		2012 vs. 2011	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	68,085	51%	67,677	53%	408	1%
Whole milk products	55,147	41%	49,402	39%	5,745	12%
Ingredients and other	10,868	8%	10,411	8%	457	4%
Total	**134,100**		**127,490**		**6,610**	**5%**

Cost of sales and Gross profit

Cost of sales reached EUR 99.5 million (EUR 96.6 million in H1 2011). The growth of the cost of sales was slower than the revenue increase due to the following. The re-introduction of government subsidies to dairy farmers in Ukraine, as well as a restriction imposed by Russia on Ukrainian cheese exports had a positive impact on the Group's cost of raw materials.

A decrease in the average raw milk prices both in Russia and Ukraine, especially in the second quarter of 2012, as well as an increase in the Group's in-house milk production, led to a 14% y-o-y drop in the cost of raw and other materials, mainly milk.

As a result, the share of raw and other materials in the total consolidated revenue decreased from 59.5% in H1 2011 to 51.6% in H1 2012. For more information on the raw milk prices and supply, refer to sections *Material Factors and Events during the Reporting Period* and *Dairy Markets*.

At the same time, in the first quarter this drop in milk prices had a little effect on the Group's COGs, since Milkiland sold dairy products produced in late 2011, when the milk prices were higher. Thus, the Group's management believes that the positive impact of the above factors will be more visible for the whole year results.

While transportation and gas costs in the second quarter 2012 grew in line with the first quarter 2012, when prices went up, depreciation increased on the back of revaluation of PPE in late 2011. An increase in other costs represents the decrease in the inventories of finished goods and work in progress (in the first half of 2011, inventories increased as higher raw milk prices were expected).

Breakdown of the Group's cost of sales in H1 2012-2011, '000 EUR and %

	2012		2011	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	69,151	51.6%	75,888	59.5%
Wages and salaries	5,450	4.1%	5,461	4.3%
Depreciation	5,036	3.8%	4,025	3.2%
Transportation costs	5,497	4.1%	4,460	3.5%
Gas	4,868	3.6%	3,506	2.7%
Other	9,484	7.1%	3,288	2.6%
Total	**99,486**	**74.2%**	**96,628**	**75.8%**

The Group's gross profit grew by 8% to EUR 34.7 million, and the gross margin improved from 25% to 26% in the first half of 2012.The gross margin for the second quarter 2012 constituted 30% vs. 22% in the first quarter of the year (23% and 27% in Q2 and Q1 2011 respectively).

Profit from operations and EBITDA

A pressure put by high cost of sales on the gross margin in the first quarter 2012, as well as an increase in operating expenses resulted in a decrease in the Group's EBITDA by 13% to EUR 16.2 million, EBITDA margin constituted 12.1% in H1 2011 vs. 14.7% in H1 2011. In the second quarter 2012, EBITDA margin constituted 14.4% (same as in Q2 2011).

Selling and distribution expenses grew faster than sales mainly due to the Group's expansion efforts. Integration into agricultural production led to a rise in security and labor costs, while streamlining of the brand portfolio was supported by increased marketing and advertising activities in the WMP segment. As a result, selling and distribution expense grew 15% to EUR 11.6 million (EUR 10.1 million in H1 2011).

Administrative expenses grew 3% to EUR 12.5 million in line with the revenues. Labor costs decreased by 19%, since for the six months ended 30 June 2011, the Group has recognized an additional one-off expense of EUR 1.9 million. Without this one-off expense, labor costs in H1 2012 grew 22% due to the Group's expansion in the second half of 2011 when five agricultural companies were acquired.

Other operation expense was EUR 1.0 million in H1 2012 vs. an operation income of EUR 0.9 million in H1 2011, mainly due to a significant increase in other operating expenses such as change in provisions and write offs in VAT receivable after re-introduction of the government subsidy to dairy farmers paid by dairy processors from VAT charged on finished goods.

Profit before tax and Net profit

In the first half of 2012, financial expense was the same as in the same period of 2011, while financial income grew 79% due to a significant rise in cash and cash equivalents. The Group also recognized a foreign exchange gain of EUR 0.6 million vs. a loss of EUR 0.5 million a year before.

As a result of the above factors, profit before tax grew 5% to EUR 7.3 million. Due to a 3-fold increase in the income tax expense, net profit fell 6% to EUR 6.3 million. Net margin constituted 4.7% vs. 5.2% in the first half of 2011.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2012	December 31, 2011	June 30, 2011
Cash and cash equivalents	32,437	53,410	26,466
Trade and other receivables	45,614	28,994	22,000
Inventories	30,884	34,686	28,088
Other current assets	19,047	26,527	24,444
Total current assets	***127,982***	***143,617***	***100,998***
PPE	167,536	155,616	117,573
Deferred income tax assets	22,696	21,061	28,163
Other non-current assets	9,502	7,384	4,013
Total non-current assets	***199,734***	***184,061***	***149,749***
Total assets	**327,716**	**327,678**	**250,747**
Trade and other payables	17,626	18,430	17,874
Short-term loans and borrowings	25,606	67,153	34,742
Other current liabilities	2,917	2,369	1,844
Total current liabilities	***46,149***	***87,952***	***54,460***
Loans and borrowings	60,416	28,168	27,490
Deferred income tax liability	44,949	43,874	44,223
Other non-current liabilities	806	1,870	504
Total non-current liabilities	***106,171***	***73,912***	***72,217***
Total liabilities	**152,320**	**161,864**	**126,677**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	99,224	98,873	64,835
Retained earnings	66,320	57,861	50,287
Total equity attributable to equity holders of the parent company	***168,669***	***159,859***	***118,247***
Non-controlling interests	6,727	5,955	5,823
Total equity	**175,396**	**165,814**	**124,070**
Total liabilities and equity	**327,716**	**327,678**	**250,747**

Assets

Current assets grew by 27% from EUR 101.0 as of June 30, 2011 to EUR 128.0 million as of June 30, 2012, mainly due to a rise trade and other receivables, as well as a 23% increase in cash and cash equivalents.

The rise of trade and other receivables was due to advances issued to input suppliers for agricultural operations and to raw milk suppliers, as well as an increase in the average collection period due to granting the delays of payment to key customers in a challenging market situation.

Property, plant and equipment grew by 42% y-o-y due to several reasons:

1. In late 2011, five agricultural companies were acquired by the Group in Ukraine;
2. As at December 31, 2011, PPE were revalued to their fair value;
3. In the first half of 2012, investments into agricultural operations were EUR 13 million (for construction of dairy farms).

Due to this increase in the property, plant and equipment, the total non-current assets grew by c. 33%. Total assets grew 31% on the back of the above developments.

Liabilities and equity

Total liabilities grew by 20% resulting from a substantial rise in the long-term loans and borrowings. The Group repaid a material part of its short-term loans and substituted them with proceeds from a syndicated loan attracted in December 2011 in order to expand Milkiland's operations.

Ostankino Dairy Combine also partly refinanced their short-term loans with long-term loans under existing loan agreements. As a result, short-term loans and borrowings were reduced by 26% to EUR 25.6 million. Long-term loans and borrowings more than doubled to EUR 60.4 million. Net debt of the Group grew 50% and stood at EUR 53.6 million as of June 30, 2012. Total Debt Ratio constituted 0.47 vs. 0.51 in 2011.

The Group's total equity grew 41% to EUR 175.4 million on the back of a 32% rise in the retained earnings and a 67% rise in revaluation reserve. Net debt/equity ratio was 0.31 as of June 30, 2012vs. 0.29 as of June 30, 2011.

Basis of Preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

Material Factors and Events

Material Factors and Events during the Reporting Period

Change in the system of government support for the producers of raw milk

In late December 2011, the Ukrainian Parliament adopted amendments to the Tax Code putting farmer subsidies back to force starting from January 1, 2012. Under the new re-introduced system, 70% of the VAT charged by the dairy processors should be used to pay subsidies to dairy farmers in 2012. The remaining 30% should be paid to a special account of the state budget. The share of VAT used for subsidies will be cut to 60% in 2013 and 50% in 2014. As a result of subsidy re-introduction, prices for raw milk started to decline as early as in January contributing to a significant improvement in the Group's gross margin in the second quarter of 2012, when the Group fully benefitted from the re-introduced subsidies. For more information on the milk price and gross margin, refer to sections *Dairy Markets* and *Financial Performance*.

Restrictions of cheese exports to Russia

In February 2012, Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor) partially banned cheese exports for several Ukrainian cheese production plants, including Milkiland's Mena cheese plant. Such restrictions were imposed after several allegations made by Rospotrebnadzor in respect of quality of Ukrainian cheese. These actions of Rospotrebnadzor were actively protested by Ukrainian producers and authorities, escalating to wide public discussion around the topic.

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

In order to prevent cheese quality disputes in future, the parties agreed to establish a laboratory that would control, on a regular basis, quality of cheese exported to Russia.

In H1 2011, this situation partially limited Milkiland's ability to sell cheese in Russian market. During the period when Mena was closed for exports, the Group served Russian market from its other cheese plants. Some excessive volumes of milk were used for production of other products, mainly skimmed milk powder and butter.

On the positive side, these limitations triggered the downward correction of raw milk prices in Ukraine. For more information on raw milk prices, refer to section *Dairy Markets*.

Changes in the Board of Directors and the Group's management

On 22 June, 2012, the Annual General Meeting of Shareholders of the Company appointed Oleg Rozhko as non-executive member of the Board of Directors and Chairman of the Board of Directors for a period ending at the close of the Annual General Meeting of Shareholders to be held in 2014. Mr. Pavlo Igorovych Yokhym was dismissed from the Board of Directors due to the expiry of his 4-years period of directorship. On the same day, new Division of Duties of the Board of Directors was adopted.

Profiles of the Board members and management team are available at the Company's web-site: http://www.milkiland.com/en/O_kompanii/Board_of_directors

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

On April 23, 2012, ING Otwarty Fundusz Emerytalny acquired shares of Milkiland N.V. in transactions on the Warsaw Stock Exchange, and became an owner of Company's shares that give the Fund more than 5% of the total number of votes on the General Meeting of Shareholders. Before the acquiring of shares the Fund was the owner of 1,486,339 (one million four hundred eighty-six thousand three hundred thirty-nine) Company's shares that gave 4.76% of Company's initial capital and was right to 1,486,339 (one million four hundred eighty-six thousand three hundred thirty-nine) votes on the General Meeting of Shareholders.

After the transaction, the Fund was the Owner of 1,720,687 (one million seven hundred twenty thousand six hundred eighty-seven) Company's shares that give 5.51% of Company's initial capital and is right to 1,720,687 (one million seven hundred twenty thousand six hundred eighty-seven) votes on the General Meeting of Shareholders.

Establishing a new subsidiary in Poland

To control the Group's operations in European Union, Milkiland EU sp. z.o.o., a company with its corporate seat in Warszawa, Poland, ul. Zlota 59, 00-120, was registered on 6 June 2012. The company is a 100% subsidiary of Milkiland N.V.

Financing arrangements

In January 2012, JSC "Ostankino Dairy Combine" (Ostankino) and Joint Stock Commercial Bank Sberbank of the Russian Federation entered into a short-term credit facility agreement for up to RUR 145 million (c. EUR 3.7 million) maturing in January 2013. The facility is secured by pledge of equipment and fully disbursed as of the date of the report.

In March 2012, Ostankino and Bank of Moscow entered into a short-term loan agreement in the amount of RUR 150 million (c. EUR 3.8 million) maturing in March 2013. The facility is fully disbursed as of the day of the report.

In May 2012, Ostankino and Bank of Moscow entered into a mid-term credit facility agreement for up to RUR 250 million (c. EUR 6.4 million) maturing in May 2015. The facility is secured by a pledge of real property assets and fully disbursed as of the day of the report.

In same April 2012, Ostankino and JSC Moscow Industrial Bank entered into short-term credit facility agreements for up to RUR 140 million and RUR 120 million (c. EUR 3.6 and EUR 3.1 million respectively) both maturing in April 2013. The facilities are secured by a pledge of real property assets and fully disbursed as of the day of the report.

In May 2012, Milkiland N.V. disbursed USD 40 million from the USD 100 million loan facility agreement with a syndicate of banks signed in December 2011. As of June 30, 2012, the total amount of USD 69 million was disbursed under the above agreement accounted for at the fair value of USD 65.9 million (EUR 52.4 million) in the balance sheet.

Material Factors and Events after the Reporting Date

Acquisition of Mazowiecka Spółdzielnia Mleczarska "Ostrowia"

On July 31, 2012, Milkiland EU sp. z o. o., a newly established Polish subsidiary of Milkiland N.V., acquired 100% shares in Polish-based Emir 10 sp. z o. o., a company that owns the business of former Mazowiecka Spółdzielnia Mleczarska "Ostrowia" (Ostrowia), which is currently in bankruptcy liquidation. The acquisition price comprised PLN 49.3 million (EUR 12 million). Acquisition-related costs accounted for EUR 1.2 million.

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

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

According to business plan, by the end of 2012 Milkiland will have to invest EUR 3.5 mln in order to launch the Ostrowia facility and adjust it to requirements of CIS markets; another EUR 4.5 mln will be spent to finance working capital. After reaching its target volume output in 2013-14, Ostrowia will contribute around 15% to Milkiland's consolidated revenue and EBITDA.

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

Financing arrangements

In August 2012, Ostankino and Bank VTB entered into a mid-term credit facility agreement for up to RUR 200 million (c. EUR 5.1 million) maturing in August 2015. The facility is secured by a pledge of real property assets.

In same August 2012, Ostankino and Bank VTB entered into a mid-term credit facility agreement for up to RUR 100 million (c. EUR 2.5 million) maturing in August 2015. The facility is secured by a pledge of real property assets.

Strategic Plans and Initiatives for H2 2012

The Group's management plan to further implement in the second half of 2012 some strategic plans and initiatives aimed at strengthening the market positions of the Group and improvement of the efficiency of its business. It includes, inter alia, the following:

Raw materials:

- Further increase in cattle stock and yields in order to secure higher volumes of in-house milk;
- Continue building of modern farms with the aim to launch first operations in the beginning of 2013;
- Continue supporting of dairy cooperatives in order to secure over 20% of raw milk needs through cooperatives, and increase quality of milk supplied.

Production:

- Modernize Ostankino in order to increase efficiency and improve quality;
- Modernize Ostrowia in order to launch hard cheese production in the beginning of 2013.

Sales and marketing:

- Continue streamlining the product mix and focus on higher value-added products; SKUs to be optimized based on marginal contribution and growth strategy;
- Start sales of cream and processed cheese in Poland;
- Receive Russia and Ukraine exports permission for Ostrowia.

Acquisitions: continue looking at attractive targets in Ukraine, Russia and neighbor markets.

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 30 June 2012 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 six months ended 30 June 2012 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, 23 August 2012

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

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

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MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the six months ended 30 June 2012
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2012 (unaudited)	31 December 2011 (audited)	30 June 2011 (unaudited)
ASSETS				
Current assets				
Cash and cash equivalents	9	32,437	53,410	26,466
Trade and other receivables	10	45,614	28,994	22,000
Inventories	11	30,884	34,686	28,088
Current biological assets	15	7,354	3,422	4,310
Current income tax assets		508	498	116
Other taxes receivable	12	11,185	22,607	19,908
Available for sale investments		-		110
		127,982	**143,617**	**100,998**
Non-current assets				
Goodwill	13	4,690	4,461	2,114
Property, plant and equipment	14	167,536	155,616	117,573
Non-current biological assets	15	2,569	2,583	1,186
Other intangible assets		390	340	713
Deferred income tax assets		22,696	21,061	28,163
Other non-current assets		1,853	-	-
		199,734	**184,061**	**149,749**
TOTAL ASSETS		**327,716**	**327,678**	**250,747**
LIABILITIES AND EQUITY				
Current liabilities				-
Trade and other payables	16	17,626	18,430	17,874
Current income tax liabilities		890	508	404
Other taxes payable	17	2,027	1,861	1,440
Short-term loans and borrowings	18	25,606	67,153	34,742
		46,149	**87,952**	**54,460**
Non-Current liabilities				
Loans and borrowings	18	60,416	28,168	27,490
Deferred income tax liability		44,949	43,874	44,223
Other non-current liabilities		806	1,870	504
		106,171	**73,912**	**72,217**
Total liabilities		**152,320**	**161,864**	**126,677**
Equity attributable to owners of the Company				
Share capital	19	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		55,489	58,320	33,226
Currency translation reserve		(4,952)	(8,134)	(17,078)
Retained earnings		66,320	57,861	50,287
		168,669	**159,859**	**118,247**
Non-controlling interests		6,727	5,955	5,823
Total equity		**175,396**	**165,814**	**124,070**
TOTAL LIABILITIES AND EQUITY		**327,716**	**327,678**	**250,747**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2012
(All amounts in euro thousands unless otherwise stated)

	Notes	2012 (unaudited)	2011 (unaudited)
Revenue	20	134,100	127,490
Change in fair value of biological assets		59	1,356
Cost of sales	21	(99,486)	(96,628)
Gross profit		**34,673**	**32,218**
Selling and distribution expenses	22	(11,616)	(10,102)
General and administrative expenses	23	(12,456)	(12,093)
Other (expenses)/income, net	24	(1,042)	885
Operating profit		**9,559**	**10,908**
Finance income		1,530	856
Finance expenses		(4,342)	(4,245)
Foreign exchange income/(loss), net		597	(499)
Profit before income tax		**7,344**	**7,020**
Income tax expense	25	(1,086)	(331)
Profit for the period		**6,258**	**6,689**
Other comprehensive income			
Currency translation differences		3,324	(5,279)
Total comprehensive income for the period		**9,582**	**1,410**
Profit attributable to:			
Owners of the Company		5,628	6,496
Non-controlling interests		630	193
		6,258	**6,689**
Total comprehensive income attributable to:			
Owners of the Company		8,810	1,488
Non-controlling interests		772	(78)
Total comprehensive income for the period		**9,582**	**1,410**
Earnings per share, basic and diluted (in euro cents)	29	**18.01**	**20.79**

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the six months ended 30 June 2012
(All amounts in euro thousands unless otherwise stated)

	2012 (unaudited)	**2011 (unaudited)**
Cash flows from operating activities:		
Profit before income tax	7,344	7,020
Adjustments for:		
Depreciation and amortization	6,012	4,688
Finance expenses	4,342	4,245
Change in provision and write-off of VAT receivable	2,959	(294)
Loss from disposal of inventories	344	-
Change in provision and write-off of inventories	340	471
Loss from write-off, revaluation and disposal of non-current assets	202	532
Finance income	(1,530)	(856)
Foreign exchange (loss)/gain	(597)	499
Change in provision and write-off of trade and other accounts receivable	(325)	(64)
Change in fair value of biological assets	(59)	(1,356)
Write-off of accounts payable	(37)	(220)
Operating cash flows before working capital changes	**18,995**	**14,665**
Changes in assets and liabilities:		
Decrease in other taxes receivable, net	8,841	355
Decrease/(Increase) in inventories	3,975	(4,475)
Increase in accounts receivable	(10,948)	(220)
(Decrease)/Increase in accounts payable	(5,182)	5,532
Increase in current biological assets	(3,592)	(1,658)
Cash generated from operations:	**12,089**	**14,199**
Interest paid	(4,383)	(4,287)
Interest received	1,530	945
Income taxes paid	(1,781)	(633)
Net cash from operating activities	**7,455**	**10,224**
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	55	239
Acquisition of property, plant and equipment and biological assets	(14,430)	(3,444)
Acquisition of subsidiaries, net of cash acquired	(418)	(935)
Other investments	(1,797)	(110)
Net cash generated from investing activities	**(16,590)**	**(4,250)**
Cash flows from financing activities:		
IPO costs paid	-	(782)
Proceeds from borrowings	53,981	17,613
Repayment of borrowings	(63,099)	(31,706)
Payment of transaction cost related to borrowings	(2,198)	-
Repayment of other non-current liabilities	(1,013)	-
Net cash used in financing activities	**(12,329)**	**(14,875)**
Net decrease in cash and cash equivalents	**(21,464)**	**(8,901)**
Cash and cash equivalents at the beginning of the period	53,410	37,757
Exchange gains/(losses) on cash and cash equivalents	491	(2,390)
Cash and cash equivalents at the end of the period	**32,437**	**26,466**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	Share capital	**Share premium**	**Foreign currency translation reserve**	**Revaluation reserve**	**Retained earnings**	**Total stockholders' equity**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011	**3,125**	**48,687**	**(12,070)**	**34,664**	**42,441**	**116,847**	**6,131**	**122,978**
Total comprehensive income for the period	**-**	**-**	**(5,008)**	**-**	**6,496**	**1,488**	**(78)**	**1,410**
Realised revaluation reserve, net of income tax	-	-	-	(1,451)	1,451	**-**	-	**-**
Acquisition of subsidiaries and non-controlling interests	-	-	-	13	(101)	**(88)**	(230)	**(318)**
Balance at 30 June 2011 (unaudited)	**3,125**	**48,687**	**(17,078)**	**33,226**	**50,287**	**118,247**	**5,823**	**124,070**
Balance at 1 January 2012	**3,125**	**48,687**	**(8,134)**	**58,320**	**57,861**	**159,859**	**5,955**	**165,814**
Total comprehensive income for the period	**-**	**-**	3,182	-	5,628	**8,810**	772	**9,582**
Realised revaluation reserve, net of income tax	**-**	**-**	**-**	(2,831)	2,831	**-**	**-**	**-**
Balance at 30 June 2012 (unaudited)	**3,125**	**48,687**	**(4,952)**	**55,489**	**66,320**	**168,669**	**6,727**	**175,396**

1 The Group and its operations

These condensed consolidated interim financial statements (the "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 2012 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 22 August 2012.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Hillegomstraat 12-14,1058LS, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska St., 02090, Kyiv, Ukraine.

As at 30 June 2012, the Company is owned by 1, Inc. Cooperatief (holding 73.04% 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 Russia, able to process up to 1,100 thousand tonnes of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

Subsidiaries of the Company are presented below:

Name	Country of incorporation	Effective share of ownership 30 June 2012	 31 December 2011
Milkiland Corporation	Panama	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	95,3%	95,3%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	91,4%	91,4%
LLC Agrosvit	Ukraine	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%
LLC Milkiland N.V Krainy	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%
LLC Moloko Polissia	Ukraine	100.0%	100.0%
PrJSC Transportnyk	Ukraine	70,3%	70,3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%
PJSC Iskra	Ukraine	68,1%	68,1%
DE Agrolight	Ukraine	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	100.0%	100.0%
LLC Avtek Rent Service	Ukraine	100.0%	100.0%
AF Konotopska	Ukraine	100.0%	100.0%
LLC Batkivschyna	Ukraine	100.0%	100.0%
PE Agro PersheTravnya	Ukraine	100.0%	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%
LLC Zemledar 2020	Ukraine	100.0%	100.0%
PAE Dovzhenka	Ukraine	100.0%	-
Milkiland EU sp. z.o.o.	Poland	100.0%	-

During the six months ended 30 June 2012, the Group finalized acquisition of agricultural company PAE Dovzhenka (note 6).

2 Operating environment of the Group

Operating environment in Ukraine

Ukraine displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. Starting from 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Ukrainian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Operating environment in Russia

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The macroeconomic instability could be triggered by some external factors, including drop in oil prices in the world market, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2011.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

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.

3 Summary of significant accounting policies (continued)

Foreign currency. 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.

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. 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
As at 30 June 2012	1.2590	10.0626	41.3230
Average for six months ended 30 June 2012	1.2970	10.3615	39.7436
As at 31 December 2011	1.2939	10.3380	41.6714
As at 30 June 2011	1.4453	11.5224	40.3870
Average for six months ended 30 June 2011	1.4032	11.1664	40.1647

4 Critical 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 Adoption of new or revised standards and interpretations

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

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

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

- ***IFRS 9, Financial instruments*** (issued in December 2009). The standard replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. For financial liabilities, the standard retains most of the IAS 39 requirements. Adoption of IFRS 9 is mandatory from 1 January 2013; earlier adoption is permitted. IFRS 9 is not expected to have any significant impact on the Group's financial statements. IFRS 9 has not been adopted by the European Union at the date of this report issue and it is unlikely that the standard will be applicable on the European Union territory from 1 January 2013.
- ***IFRS 10, Consolidated financial statements*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation— Special Purpose Entities. Earlier application is permitted. The Group is currently assessing the impact of the new standard on its financial statements.
- ***IFRS 13, Fair value measurement*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The standard applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It explains how to measure fair value for financial reporting and does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. IFRS 13 is not expected to have any significant impact on the Group's financial statements.

5 Adoption of new or revised standards and interpretations (continued)

- **Amendments to IFRS 7, Financial instruments: Disclosures - Offsetting financial assets and financial liabilities** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets*** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***IAS 19, Employee benefits*** (revised in June 2011 and effective for periods beginning on or after 1 January 2013). The standard prescribes the accounting and disclosure by employers for employee benefits. The Standard does not deal with reporting by employee benefit plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans). The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Amendments to IAS 1, Presentation of financial statements - Presentation of items of other comprehensive income*** (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendments improved the consistency and clarity of the presentation of items of other comprehensive income (OCI). The amendments also highlighted the importance of presenting profit or loss and OCI together and with equal prominence. In 2007 IAS 1 was amended to require profit or loss and OCI to be presented together. The amendments issued in June 2011 retained that requirement, but focused on improving how items of OCI are presented. The main change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Amendments to IAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities*** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments clarify requirements for offsetting financial assets and financial liabilities. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Annual improvements 2011*** (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013).The improvements set out amendments to IFRSs and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments result from proposals that were contained in the exposure draft of proposed amendments to IFRSs, improvements to IFRSs, published in June 2011. The Annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are not expected to have any significant impact on the Group's financial statements.

5 Adoption of new or revised standards and interpretations (continued)

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

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

6 Business combinations

Acquisitions of subsidiaries. In 2012 the Group focused on the development of raw milk supply system and acquired 100% shares in agricultural company PAE Dovzhenka.

Due to the fact that the PAE Dovzhenka has been acquired in the first quarter 2012, the fair value of the net assets obtained has not been determined due to the short time period before the period-end close. As a result provisional goodwill at the amount of EUR 156 thousand has been recognised. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator.

Identifiable assets acquired and liabilities assumed:	PAE Dovzhenka
Cash and cash equivalents	1
Trade and other receivables	1
Inventories	88
Property, plant and equipment	130
Biological assets	50
Trade and other payables	(20)
Total net identifiable assets	**250**
Cash paid	406
Fair value of identifiable assets	(250)
Goodwill	**156**

For ALLC Nadiya and PE Agro Pershe Travnya that were acquired in the end of 2011, the fair value of the net assets obtained was not determined. Consequently, the fair value of net assets as at the day of acquisition will be determined in 2012 by the independent valuator and included to the consolidated financial statements as at and for the year ended 31 December 2012. As a result provisional goodwill at the amount of EUR 2,346 thousand was recognized in the consolidated financial statements as at and for the year ended 31 December 2011. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities.

7 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* – comprising the production and distribution of cheese and butter;
- *Whole-milk* – comprising the production and distribution of cheese and butter;
- *Ingredients* – comprising the production and distribution of dry milk, agricultural products, ice-cream and other products. Although the segment contributes a relatively small amount of revenue to the Group, it is also monitored by the strategic chief operating decision-maker as well.

The Board of Directors assesses the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event.

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

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

The segment information by country for the six months ended 30 June is as follows:

	2012			2011		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
Total segment revenue	56,145	94,627	150,772	50,703	95,297	146,000
Inter-segment revenue	-	(16,672)	(16,672)	-	(18,510)	(18,510)
Revenue from external customers	**56,145**	**77,955**	**134,100**	**50,703**	**76,787**	**127,490**
EBITDA	**3,918**	**13,030**	**16,949**	**1,162**	**18,134**	**19,296**
Depreciation and amortisation	1,703	4,309	6,012	1,620	3,068	4,688

7 Segment information (continued)

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

The segment information by product for the six months ended 30 June is as follows:

	2012				2011			
	Cheese & butter	**Whole-milk products**	**Ingredi-ents**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredi-ents**	**Total**
Total segment revenue	77,832	55,147	17,793	150,772	79,961	49,402	16,637	146,000
Inter-segment revenue	(9,747)	-	(6,925)	(16,672)	(12,284)	-	(6,226)	(18,510)
Revenue from external customers	**68,085**	**55,147**	**10,868**	**134,100**	**67,677**	**49,402**	10,411	**127,490**
EBITDA	**9,962**	**5,949**	**1,038**	**16,949**	**14,933**	**2,649**	**1,714**	**19,296**
EBITDA margin	**15%**	**11%**	**10%**	**13%**	**22%**	**5%**	**16%**	**15%**
Depreciation and amortisation	2,928	2,489	594	6,012	1,843	2,398	447	4,688

A reconciliation of EBITDA to profit before tax for the six months ended 30 June is as follows:

	2012	**2011**
EBITDA of main reportable segments	**16,949**	**19,296**
EBITDA of other segments	(734)	(585)
Total EBITDA	**16,215**	**18,711**
Depreciation and amortisation	(6,012)	(4,688)
Non-recurring expenses	(442)	(2,583)
Loss from disposal and impairment of non-current assets	(202)	(532)
Finance income	1,530	856
Finance expenses	(4,342)	(4,245)
Foreign exchange gain/(loss)	597	(499)
Profit before tax	**7,344**	**7,020**

8 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:	**2012**	**2011**
Revenue	1,819	1,107

The outstanding balances due from related parties were as follows:

Entities under common control:	**30 June 2012**	**31 December 2011**	**30 June 2011**
Trade accounts receivable	997	855	223
Other financial assets	882	-	-
Other accounts receivable	2,694	31	251

During six months ended 30 June 2012, the Group contracted related parties to construct new farms. As at 30 June 2012, prepayments made in respect of farms construction EUR 9,964 thousand (31 December 2011: nil) were classified as property, plant and equipment (Note 14).

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2012 paid or payable to key management for employee services is EUR 495 thousand (2011: 631 thousand).

9 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 2012	**31 December 2011**	**30 June 2011**
Short-term deposits	12,381	27,740	20,318
Cash in bank and cash on hand	20,056	25,670	6,148
Total cash and cash equivalents	**32,437**	**53,410**	**26,466**

10 Trade and other receivables

	30 June 2012	31 December 2011	30 June 2011
Trade accounts receivable	26,414	24,705	18,032
Other financial assets	3,375	284	-
Allowance for doubtful debts	(2,009)	(1,999)	(1,673)
Total financial assets within trade and other receivables	**27,780**	**22,990**	**16,359**
Advances issued	13,319	3,924	3,763
Other receivables	8,097	5,906	4,925
Allowance for doubtful debts	(3,564)	(3,826)	(3,047)
Total trade and other receivables	**45,614**	**28,994**	**22,000**

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

11 Inventories

	30 June 2012	31 December 2011	30 June 2011
Raw and other materials	8,644	11,707	9,874
Finished goods and work in progress	20,944	21,091	18,214
Agriculture produce	1,296	1,888	-
Total inventories	**30,884**	**34,686**	**28,088**

12 Other taxes receivable

	30 June 2012	31 December 2011	30 June 2011
VAT receivable	11,063	22,407	19,715
Payroll related taxes	81	53	58
Other prepaid taxes	41	147	135
Total other taxes receivable	**11,185**	**22,607**	**19,908**

VAT receivable as at 30 June 2012 is shown net of provision at the amount of EUR 2,294 thousand (31 December 2011: EUR 7,639 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 25% (2011: 28%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

13 Goodwill

	2012	2011
Balance at 1 January	4,461	2,117
Acquisitions	156	-
Foreign currency translation	73	(3)
Balance at 30 June	**4,690**	**2,114**

The goodwill of EUR 2,114 thousand (2011: EUR 2,114 thousands) is a result of acquisition of Ostankino Dairy Combine in January 2008. The provisional goodwill of EUR 2,420 thousand (2011: EUR 2,347 thousands) is a result of acquisition of PE Agro Pershe Travnya and ALLC Nadiya in December 2011 and have not been revalued during the six months ended 30 June 2012. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator. Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian and Ukrainian companies, it is translated each year as part of the translation of the foreign operation.

The provisional goodwill of EUR 156 thousand is a result of acquisition of PAE Dovzhenka in 2012 (note 6).

14 Property, plant and equipment and intangible assets

During six months ended 30 June 2012 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 14,430 thousand (2011: EUR 3,444 thousand), which comprised mainly prepayments made in respect of construction of new farms.

15 Biological assets

The Group is engaged in agricultural activities mainly for the following purposes:

- Development of livestock in order to create own base for raw milk supply.
- Grow of maize, wheat and barley with the main purpose to sale to the external customers.

Non-current cattle are represented by dairy livestock with an average yearly lactation period of nine months. Current cattle comprise immature cattle and cattle intended for sale. Other biological assets mainly represent pigs and horses.

To estimate the fair value of biological assets, a valuation, which conforms to International Valuation Standards, was performed by the Group, fair value is estimated as the present value of the net cash flows expected to be generated from biological assets discounted at a current market discount rate.

As at 30 June 2012 and 31 December 2011 biological assets comprise the following groups:

	30 June 2012		31 December 2011		30 June 2011	
Current biological assets of animal breading	Units	Amount	Units	Amount	Units	Amount
Cattle	3,646	2,097	3,443	1,840	2,580	835
Other livestock	-	446	-	420	-	31
Total biological assets of animal breading	**3,646**	**2,543**	**3,443**	**2,260**	**2,580**	**866**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount	Hectares	Amount
Maize	3,733	2,341	-	-	6,230	2,004
Wheat	3,274	1,194	3,406	1,015	2,853	689
Barley	1,192	288	802	147	657	197
Other	11,418	988	-	-	4,565	554
Total biological assets of plant growing	**19,617**	**4,811**	**4,208**	**1,162**	**14,305**	**3,444**
Total current biological assets	**-**	**7,354**	**-**	**3,422**	**-**	**4,310**
Non-current biological assets	Units	Amount	Units	Amount	Units	Amount
Cattle	3,242	2,569	2,827	2,541	2,105	1,186
Other livestock	-	-	-	42	-	-
Total non-current biological assets	**3,242**	**2,569**	**2,827**	**2,583**	**2,105**	**1,186**

16 Trade and other payables

	30 June 2012	31 December 2011	30 June 2011
Trade payables	9,531	10,952	10,281
Wages and salaries payable	1,710	2,009	1,545
Accounts payable for fixed assets	549	49	107
Accrual for audit fees and consulting services	-	91	14
Accruals for bonuses	191	613	1,730
Interest payable	176	268	294
Total financial liabilities within trade and other payables	**12,157**	**13,982**	**13,971**
Advances received	1,054	2,215	1,946
Other accounts payable	2,949	798	603
Accruals for employees' unused vacations	1,466	1,435	1,354
Total trade and other payables	**17,626**	**18,430**	**17,874**

Financial liabilities are normally settled within 60-days period.

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

17 Other taxes payable

	30 June 2012	31 December 2011	30 June 2011
VAT payable	1,048	759	477
Payroll related taxes	799	921	695
Other taxes payable	180	181	268
Total other taxes payable	**2,027**	**1,861**	**1,440**

18 Loans and borrowings

	30 June 2012	31 December 2011	30 June 2011
Current			
Interest bearing loans due to banks	25,235	66,290	26,822
	25,235	**66,290**	**26,822**
Short-term portion of long-term debt			
Interest bearing loans due to banks	-	475	7,754
Finance leases	371	388	166
	371	**863**	**7,920**
Total current loans and borrowings	**25,606**	**67,153**	**34,742**
Non-current			
Interest bearing loans due to banks	60,139	27,730	27,141
Loans from non-financial institutions	-	-	15
Finance leases	277	438	334
Total non-current loans and borrowings	**60,416**	**28,168**	**27,490**
Total loans and borrowings	**86,022**	**95,321**	**62,232**

Movement in loans and borrowings during the six months ended 30 June was as follows:

	2012	2011
Balance at 1 January	95,321	79,836
Obtained new loans and borrowings, net of transaction costs	51,783	17,613
Repaid loans and borrowings	(63,099)	(31,706)
Foreign exchange (loss)/gain	2,017	(3,511)
Balance at 30 June	**86,022**	**62,232**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 June 2012 and 31 December 2011 were as follows:

	30 June 2012				31 December 2011			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
12 months or less								
Outstanding balance, thousand EUR	6,609	-	18,997	**25,606**	35,690	4,380	27,083	**67,153**
Average interest rate, %	9.84	-	10.23	**10.13**	11.28	18.33	8.80	**10.74**
1-5 years								
Outstanding balance, thousand EUR	54,334	32	6,050	**60,416**	24,313	3,855	-	**28,168**
Average interest rate, %	11.52	19,88	9.90	**11.36**	12.00	19.67	-	**13.05**

19 Share capital

Share capital as at 30 June is as follows:

	2012		2011	
	Number of shares	EUR 000	Number of shares	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 30 June	**31,250,000**	**3,125**	**31,250,000**	**3,125**

20 Revenue

Sales by product during the six months ended 30 June were as follows:

	2012	2011
Cheese & Butter	68,085	67,677
Whole-milk products	55,147	49,402
Ingredients	10,868	10,411
Total revenue	**134,100**	**127,490**

Regional sales during the six months ended 30 June were as follows:

	2012	2011
Russia	86,789	85,010
Ukraine	43,331	36,237
Other	3,980	6,243
Total revenue	**134,100**	**127,490**

21 Cost of sales

	2012	2011
Raw and other materials	69,151	75,888
Transportation costs	5,497	4,460
Wages and salaries	5,450	5,461
Depreciation and amortisation	5,036	4,025
Gas	4,868	3,506
Electricity	2,764	2,311
Changes in finished goods	1,927	(3,799)
Social insurance contributions	1,869	1,897
Repairs of property, plant and equipment	1,299	1,265
Water	429	322
Other expenses	1,196	1,292
Total cost of sales	**99,486**	**96,628**

22 Selling and distribution expenses

	2012	2011
Transportation costs	5,167	4,790
Wages and salaries	2,763	2,305
Security and other services	1,668	1,270
Social insurance contributions	868	759
Marketing and advertising	518	439
Licence fees	156	111
Rental costs	96	92
Depreciation and amortisation	62	56
Other expenses	318	280
Total selling and distribution expenses	**11,616**	**10,102**

23 General and administrative expenses

	2012	2011
Wages and salaries	4,997	6,145
Social insurance contributions	1,267	1,033
Representative charges	1,048	704
Consulting fees	896	926
Depreciation and amortisation	826	607
Bank charges	812	576
Taxes and other charges	751	726
Property insurance	334	295
Security and other services	311	217
Other utilities	268	198
Repairs and maintenance	198	153
Communication	151	120
Transportation costs	109	43
Rental costs	102	92
Office supplies	76	37
Other expenses	310	221
Total general and administrative expenses	**12,456**	**12,093**

24 Other (expenses)/income, net

	2012	2011
Government grants recognised as income	2,658	671
Change in provision and write off of trade and other accounts receivable	325	64
Gain from write off of accounts payable	37	220
Change in provision and write off of VAT receivable	(2,959)	294
Loss from disposal of inventories	(344)	-
Change in provision and write-off of inventories	(340)	(471)
Penalties	(235)	(117)
Loss from disposal of non-current assets	(202)	(532)
Other income, net	18	756
Total other (expenses)/income, net	**(1,042)**	**885**

25 Income tax

	2012	2011
Current income tax charge	(2,128)	(894)
Deferred income tax credit	1,042	563
Total income tax	**(1,086)**	**(331)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (January-March 2011: 25%, April-December 2011: 23%), Russian profit tax was levied at the rate of 20% (2011: 20%). The profit of ten 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 2012 the Group has reflected the single tax at the amount of EUR 1 thousand (2011: EUR 2 thousand) in administrative expenses. In 2012 the tax rate for Panama operations was nil (2011: nil) on worldwide income.

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ended 31 December 2012 is 15%.

26 Changes in presentation

In the course of preparation of financial statements for the six months ended 30 June 2011 management has revised accounting for fixed production overheads from administration expenses to cost of sales.

Due to insignificancy government grants recognised as income have been reclassified from separate line items to other expenses. Effects of reclassifications of financial statements for six months ended 30 June 2011 and as of 30 June 2011 are summarised in the table below:

	As previously reported	Reclassifications	As reclassified
Statement of Comprehensive Income			
Cost of sales	(91,667)	(4,961)	(96,628)
General and administrative expenses	(17,054)	4,961	(12,093)
Government grants recognised as income	671	(671)	-
Other (income)/expenses, net	214	671	885

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.

Insurance policies
The Group insures all significant property. As at 30 June 2012 and 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.

Compliance with covenants
The Group is subject to certain covenants related to its borrowing. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 30 June 2012 and 2011.

Capital expenditure commitments
As at 30 June 2012 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 2,020 thousand (31 December 2011: nil). Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

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 six months ended 30 June 2012 and 2011 no changes were made in objectives, policies and procedures of the capital management.

29 Earnings per share

	2012	**2011**
Numerator		
Earnings used in basic and diluted EPS	5,628	6,496
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250

30 Subsequent events

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

Identifiable assets acquired and liabilities assumed:	Emir 10
Cash and cash equivalents	34
Trade and other receivables	69
Inventories	12
Property, plant and equipment	8,810
Other intangibles	1,318
Trade and other payables	(1)
Total net identifiable assets	**10,242**
Cash paid	12,000
Fair value of identifiable assets	(10,242)
Goodwill	**1,758**

Due to the fact that Emir 10 has been acquired after 30 June 2012, the fair value of the net assets obtained has not been determined yet. As a result provisional goodwill at the amount of EUR 1,758 thousand has been estimated. Consequently, the fair value of net assets as at the date of acquisition will be subsequently determined in 2012 by the independent valuator.

Acquisition-related costs of EUR 1,200 thousand were incurred in relationship with business combination described above.

Results of the first half of 2012

Press Release

Kyiv, August 23, 2012 - *Milkiland N.V. has published the Group's consolidated results of the first half of 2012.*

Highlights of the 1st half of 2012

Operational highlights

- The export ban imposed by Russian Federal Service on Customer's Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor) for seven Ukrainian cheese exporters, including Milkiland's Mena cheese plant, partially limited the ability of Milkiland to sell cheese in Russia
- On the positive side, Rospotrbnadzor's restrictions triggered a 31% drop in raw milk prices in Ukraine from the beginning of 2012, ending up on average 3-10% lower y-o-y
- Partial re-introduction of government subsidies to dairy farmers also had a positive effect on margins of the Group's Ukrainian business due to lower effective cost of milk
- The Group's in-house milk production more than doubled y-o-y to c. 8,400 tons, EUR 13 million were invested into construction of two modern farms housing up to 6,000 milking cows
- Milkiland's efforts to develop a sustainable milk supply system through supporting of agricultural milk cooperatives resulted an increase in their share in raw milk intake in Ukraine to 22% (from nil in H1 2011)
- The Group continued optimization of its product mix and introducing new products in order to build a winning portfolio
- The acquisition of Ostrowia cheese making plant in Poland will allow Milkiland to address its traditional markets in Russia and Ukraine from this country, thus partly mitigating the risk of possible Russian import bans, as well as to establish a footprint in the EU dairy market

Financial highlights

- Revenue grew by 5% to EUR 134 million driven by better pricing and better WMP sales in Russia
- Gross profit grew by 8% on a backdrop of re-introduction of government subsidies to dairy industry in Ukraine and a decrease in average raw milk prices both in Russia and Ukraine
- EBITDA decreased by 13% to EUR 16.2 million, while EBITDA margin declined from 14.7% in H1 2011 to 12.1%, mainly due to the fact that Q1 2012 results were still based on the sales of the products made from "non-subsidy" milk purchased in Q4 2011. In Q2 2012, the Group started to enjoy re-introduction of subsidies, however, Rospotrebnadzor's restrictions inhibited Milkiland's financial performance to some extent; as a result, the Group posted Q2 EBITDA of EUR 9.6 million (+ 4% y-o-y)
- Net profit fell 6% to EUR 6.3 million, mainly due to an increase in income tax expense. Net margin constituted 4.7% vs. 5.2% in the first half of 2011
- Net debt increased by 50% and stood at EUR 53.6 million

Strategy and Operations

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

"Despite still challenging situation, the first half of 2012 triggered the recovery of the dairy markets in Russia and Ukraine. Reviving supply and lower prices for raw milk in both countries give us a good opportunity to develop our business and restore margins. In order to support the growth, the Group's management has made a major effort to develop the raw milk base in Ukraine by investing into the new state-of-the-art dairy farms and supporting milk cooperatives in regions where we operate.

The partial restriction of cheese exports to Russia impeded our growth in the first half of 2012. However, we successfully resolved this unexpected issue and plan to be back on track in our growth plan."

Financial overview

Revenue

In the first half of 2012, the Group's revenue grew c. 5% y-o-y to EUR 134.1 million, mainly on the back of better pricing and better WMP sales in Russia. In the total revenue, cheese and butter sales accounted for 51%, whole milk products for 41% (53% and 39% respectively in the first half of 2011).

Cost of sales and Gross profit

Cost of sales increased by c. 3% to EUR 99.5 million which is less than revenue growth due to a decrease in the average raw milk prices both in Russia and Ukraine.

The Group's gross profit grew by 8% to EUR 34.7 million, and the gross margin improved from 25% to 26%.The gross margin for the second quarter of 2012 when the effect of re-introduced subsidies became fully evident constituted 30% vs. 22% in the first quarter of the current year (23% and 27% in Q2 and Q1 2011 respectively).

Profit from operations and EBITDA

EBITDA decreased by 13% to EUR 16.2 million, while EBITDA margin declined from 14.7% in H1 2011 to 12.1% due to the above reasons.

Profit before tax and Net profit

Profit before tax grew 5% to EUR 7.3 million due to an increase in financial income by 79% because of a significant rise in cash and cash equivalents and recognition of a foreign exchange gain of EUR 0.6 million in comparison with loss of EUR 0.5 million a year before.

Net profit fell 6% to EUR 6.3 million due to a 3-fold increase in the income tax expense. Net margin constituted 4.7% vs. 5.2% in the first half of 2011.

Net debt

Net debt of the Group increased by 50% and stood at EUR 53.6 million as of June 30, 2012. Total Debt Ratio constituted 0.47 vs. 0.51 in H1 2011.

About Milkiland Group

Milkiland is a TOP-5 diversified dairy producer operating in Russia, Ukraine and Poland, offering a wide range of dairy products such as fresh dairy, cheese and butter, to satisfy consumers in their everyday needs for healthy and tasty foods.

In Russia, the Group produces fresh dairy products at Moscow-based OJSC "Ostankino Milk Combine" and sells under Ostankinskaya brand. Also, Ukrainian made cheese under international Dobryana brand is sold in most of Russian regions.

In Ukraine, the Group operates 10 plants and offers wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands. In Poland Milkiland acquired Ostrowia cheese plant in the city of Ostrów Mazowiecka.

Milkiland exports dairy products from Ukraine to over 30 countries.

Shares of Milkiland N.V. – the Dutch holding company of the Group has been listed on the Warsaw Stock Exchange since December 6, 2010.

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