Annual Report 2014

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FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	**2014**	**2013**	**2012**	**2011**	**2010**
Revenue	288,725	340,973	287,013	279,758	256,480
Cost of sales	(233,837)	(268,810)	(209,737)	(214,101)	(161,299)
Change in fair value of biological assets	1,405	1,305	934	1,859	-
Gross profit	**56,293**	**73,468**	**78,210**	**67,516**	**95,181**
Operating income (expense), net	(56,950)	(54,276)	(56,669)	(46,481)	(60,354)
Operating profit	(657)	19,192	21,541	21,035	34,827
Net finance expense and other non-operating income (expense)	(73,991)	(5,472)	(6,172)	(4,947)	(12,980)
Profit (loss) before tax	(74,648)	13,720	15,369	16,088	21,847
Income tax (expense) benefit	2,233	(2,060)	(1,808)	(1,291)	147
Net profit (loss)	(72,415)	11,660	13,561	14,797	21,994
Other comprehensive income (loss)	(6,241)	(11,005)	-	42,596	30,795
Total comprehensive income	(78,656)	655	13,037	42,596	30,795
Net profit (loss) attributable to equity holders of the parent company	(71,835)	10,835	12,771	14,391	21,777
Weighted average common shares outstanding, in thousand	31,250	31,250	31,250	31,250	56,250
Earnings per share, basic and diluted (EUR cents)	(229.87)	34.67	40.87	46.05	85.58

Consolidated balance sheet as at 31 December

EUR thousands	2014	2013	2012	2011	2010
Cash and cash equivalents	10,431	13,056	23,850	53,410	37,757
Trade and other receivables	50,615	62,088	48,236	28,994	22,170
Inventories	17,779	29,763	25,487	34,471	26,194
Other current assets	12,809	24,338	16,374	26,527	22,251
Total current assets	**91,634**	**129,245**	**113,947**	**143,402**	***108,372***
PPE	135,401	187,974	189,129	156,121	125,650
Deferred income tax assets	6,366	8,405	9,754	21,061	30,503
Other non-current assets	6,450	10,863	11,611	7,094	3,409
Total non-current assets	**148,217**	**207,242**	**210,494**	**184,276**	***159,562***
Total assets	**239,851**	**336,487**	**324,441**	**327,678**	**267,934**
Trade and other payables	22,535	26,948	15,120	18,430	15,529
Short-term loans and borrowings	96,389	79,284	50,526	67,153	43,764
Other current liabilities	2,447	2,510	2,104	2,369	1,376
Total current liabilities	**121,371**	**108,742**	**67,750**	**87,952**	***60,669***
Long-terms loans and borrowings	5,531	24,475	46,427	28,168	36,072
Deferred income tax liability	18,005	27,177	30,715	43,874	47,761
Other non-current liabilities	351	657	864	1,869	454
Total non-current liabilities	**23,887**	**52,309**	**78,006**	**73,911**	***84,287***
Total liabilities	**145,258**	**161,051**	**145,756**	**161,863**	**144,956**
Share capital	3,125	3,125	3,125	3,125	3,125
Revaluation and other reserves	71,344	79,162	94,474	98,873	71,281
Retained earnings	17,676	88,050	74,702	57,861	42,441
Total equity attributable to equity holders of the parent company	**92,145**	**170,337**	**172,301**	**159,859**	***116,847***
Non-controlling interests	2,448	5,099	6,384	5,956	6,131
Total equity	**94,593**	**175,436**	**178,685**	**165,815**	**122,978**
Total liabilities and equity	**239,851**	**336,487**	**324,441**	**327,678**	**267,934**

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

EUR thousands	2014	2013	2012	2011	2010
EBITDA	17,106	33,437	37,388	34,564	44,312
Net Debt	91,489	90,703	73,103	41,911	42,079
EBITDA Margin,%	5.9%	10%	13%	12%	17%
Net Profit Margin,%	-25.1%	3%	5%	5%	9%
ROE	-78.6%	6.8%	7.9%	9.3%	18.8%
ROA	-79.0%	9%	12%	10%	20%
Market Capitalization	10,851	94,190	110,837	106,250	360,656
Enterprise Value (EV)	104,788	189,992	190,324	154,117	408,866
EV / EBITDA	6.13	5.68	5.09	4.46	9.23
EV / SALES	0.36	0.56	0.66	0.55	1.59
Net Debt / Equity	0.97	0.52	0.41	0.25	0.34
Net Debt / EBITDA	5.35	2.71	1.96	1.21	0.95
Net Debt / Sales	0.32	0.27	0.25	0.15	0.16
Total Debt Ratio	0.61	0.48	0.45	0.49	0.54
Debt / Equity	1.54	0.92	0.82	0.98	1.18
Current Ratio	0.75	1.19	1.68	1.63	1.79
Quick Ratio	0.61	0.91	1.31	1.24	1.35
P/E	(0.15)	8.69	8.68	7.38	13.48
EPS	(229.87)	34.67	40.87	46.05	85.58

Formulae for calculation of financial indicators

EBITDA	Operating profit (loss) + depreciation and amortization, net of the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring events
NET DEBT	Short-term finance debt + long-term finance debt, net of cash and cash equivalents
EBITDA MARGIN, %	EBITDA/ Revenues
NET PROFIT MARGIN %	Net profit / Revenues
RETURN ON EQUITY (%)	Net Profit / Shareholders equity
RETURN ON ASSETS (%)	Net Profit / Total assets
MARKET CAPITALIZATION	Number of shares at end of financial period multiplied by closing price on last trading day of the financial period
ENTERPRISE VALUE (EV)	Market capitalization + net debt + minority interests
TOTAL DEBT RATIO	(Total current liabilities + total non-current liabilities) / Total assets
CURRENT RATIO	Total current assets / Total current liabilities
QUICK RATIO	(Total current assets - inventories) / Total current liabilities
P/E	Closing price on last trading day of financial year / Earnings per share
EPS	Net profit attributable to equity holders of the parent company / Average number of shares during the financial period

CEO AND CHAIRMAN'S STATEMENT

Dear Consumers, Shareholders, Partners,

As it began, 2014 was a year of great expectations for Milkiland. After several years of building up diversified business model and post-merger integration, Milkiland was ready for sustainable organic growth. Strategic trade barriers risks with Russia seemed to be addressed to significant extent, as cheese production was successfully launched in Poland and Russia. In 2013, we improved our position in our key markets of Ukraine, Russia, and the EU, and had clear idea how to advance further.

However, things radically changed, after political unrest in Ukraine quickly accelerated into mass protests followed by exile of the President, dismissal of Government, re-election of Ukrainian parliament. These events turned into full-scale conflict with Russia, including territory disputes, ideological confrontation, and exhaustive trade wars. Ukraine entered into severe economic crisis with a drop in consumer spending, capitals outflow, major problems to banking system and deep local currency devaluation by 73%. Russia, though doing better, was also a very difficult market to be in, with stagnating GDP and poor consumer sentiment, significant cut in government spending and rouble devaluation by 52%.

Milkiland’s business was in the epicenter of political and economic turmoil, and hence was negatively affected. Russian bans on food imports from Ukraine and the EU made a double hit to our Group, slashing revenues of exports-oriented Milkiland Ukraine and Ostrowia. As a chain reaction, excessive local dairy supply in Europe caused drop in prices, inhibiting profitability of local players.

In order to offset losses incurred by cheese business after closure of Russian market, Milkiland focused on local markets and new exports destinations. In Ukraine, our market share in cheese advanced from 6.2% in 2013 to 8.1% in 2014. Lower imports opened opportunities to develop higher value added products; in the segment of mould cheese, our sales increased 2.6 times. Diversification of exports geography was connected with product line shift from cheese to dry milk products, since commodity is easier to penetrate new markets. Revenues of Milkiland Intermarket (markets other than Ukraine, Russia and EU) in 2014 grew by 67% compared to the previous year.

On the positive side, Moscow-based Ostankino Dairy Combine significantly improved its performance, both in revenue and profitability, as imports restrictions freed some space for Russian local dairy companies. Ostankino completed installation of new packaging line and launched several new product categories under brands Zhivo and Tselnoskvasheno. This led to an increase in market share and shelves presence, primarily in the nation-wide retail chains.

Unfortunately, our anti-crisis efforts in 2014 were not enough to compensate for numerous negative impacts. While sales volumes held relatively well and posted only 2% decline in raw milk equivalent, the Group’s consolidated revenues decreased by c. 15% to EUR 288 million, being result of major devaluation of Ukrainian and Russian currencies against euro. Milkiland’s EBITDA declined almost two fold from EUR 33.4 million in 2013 to EUR 17.1 million in 2014 on the back of depressed revenues and lower margins, resulting from worsening of product mix (shift from cheese to milk powders) and depressed dairy prices in EU and Ukraine.

However, 2014 proved that Milkiland is indeed a strong business. Our team was flexible, inventive and persistent in managing numerous challenges and achieving goals. The Group controlled well situation in its local markets and actively sought new destinations for exports. After devaluation of Ukrainian hryvnya, we see a lot of potential in exporting dairy products globally, the next steps are to develop sales channels and start improving product mix, shifting from commodity to higher value added products. We look forward to expand our presence in the EU, both on account of Ostrowia and exports from Ukraine. Our Russian business Ostankino posted on of the best results for the last five years, and this positive trend to be continued in 2015.

Given the developments in post-soviet countries, we changed our view on development focus, and last year the Group has put together foundation for new growth paradigm. While local market for each business unit will remain a strong priority, we will look for expansion of external markets. Milkiland Intermarket was established in 2013 for this purpose, and now this business unit gains a great deal of importance. The Group's management remains committed to further development and finding new ways to improve our business.

Sincerely yours,

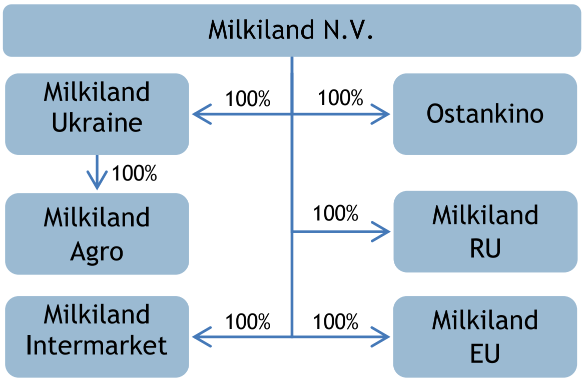
Oleg Rozhko, Chairman of the Board

Anatoliy Yurkevych, Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2014

The Group Overview

Milkiland (the Company, or the Group) is a diversified dairy producer with core operations in the CIS and EU. The Group's holding company Milkiland N.V. is incorporated in the Netherlands, while activities in the CIS and EU are conducted through its subsidiaries in Ukraine, Russia and Poland. The Group's aggregated chart is presented below.



The Group's business in Ukraine (Milkiland Ukraine) includes milk processing (10 dairy plants), dairy farming (Milkiland Agro), and extensive milk collection system throughout the country. Milkiland Ukraine is the Company's major production division, collecting and processing about three quarters of the Group's milk, and producing a wide range of products that it sells both locally and in overseas markets. Milkiland Agro is a farming subsidiary of Milkiland Ukraine operating over 7,350 cattle livestock, including about 2,700 milking cows. The total land area cultivated by Milkiland Agro is about 22,900 hectares.

The Group's Russian business consists of Ostankino Dairy Combine (Ostankino) and Milkiland RU. Ostankino is the Moscow-based producer of whole milk products ranking No. 3 in the local Moscow market, the largest regional CIS dairy market. Milkiland RU is responsible for distribution of the Group's cheese products in Russia, and development of Milkiland's production base in this country. In February 2013, Milkiland RU finished acquisition of Rylsk Dairy Plant in Kursk region.

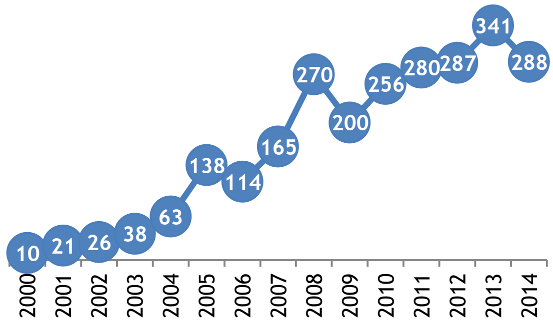
In 2012, the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd, processed cheese and yoghurts.

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

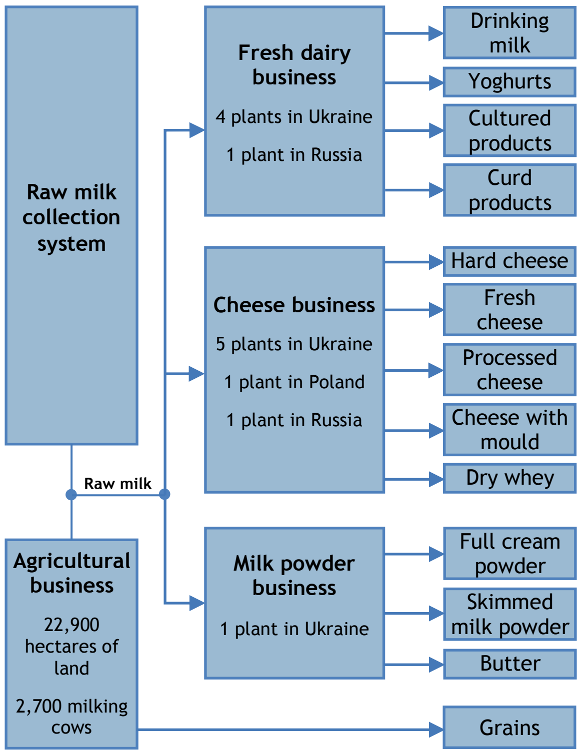
The Group's total annual milk processing capacity exceeds 1.3 million tons; product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2014, Milkiland's consolidated revenues was EUR 288 million, or the level of 2012, representing c. 15% decrease compared to 2013 caused mainly by operational currencies devaluation to euro.

Annual revenue, EUR million



Milkiland develops as universal milk processor with production assets diversified across CIS and EU, and with a significant level of vertical integration, to enable reliable access to raw milk - one of the core restraints for dairy producers in the CIS. Such model makes possible to offer a wide range of quality products to the Group's customers, while controlling costs and sustaining margins. Milkiland's business model is outlined in the diagram below:



Milkiland's milk procurement comprises its own dairy farming business (Milkiland Agro) and extensive raw milk collection system from third party farms and individual farmers. In order to secure larger volumes of in-house milk, in 2012 the Group commenced construction of the modern 6,800 stalls dairy farm. The first section of new dairy farm was put in operation and filled by 1,700 milking cows. In 2014, per cow milk yield improved by 22% on the back of the cut in the less productive cows headcount. As a result, the in-house milk production improved by 6%. In 2014, Milkiland Agro provided for c. 5% of the Group's total milk intake in Ukraine.

In order to secure milk supply from third parties, especially small farms and individual farmers, Milkiland established long-term partnership with nation-wide milk cooperative Moloko-Kraina that has grown to provide 28% of the Group's raw milk intake in Ukraine.

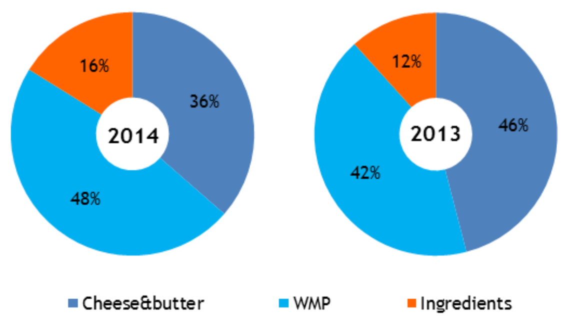
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines.

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

Whole milk dairy business includes Moscow-based Ostankino and 4 dairy plants in Ukraine, producing a wide range of fresh dairy such as drinking milk, kefir, yoghurts, sour cream, ryazhenka, tvorog etc. Milkiland's fresh dairy is sold nation-wide in Ukraine and focused on Moscow region in Russia.

The Group's cheese business is comprised of five production units in Ukraine and Polish-based Ostrowia cheese plant acquired in 2012. Also, Milkiland in 2012 conducted acquisition of small cheese plant in Russia (Kursk region); the deal was closed in February 2013. Milkiland is one of the leading CIS players in this segment offering a wide variety of cheeses such as hard, fresh, curd and processed cheese. Also, the Group is successful in introducing high value added specialty products such as cheese with white and blue mould, being one of the few local players in this attractive segment. The Group sells its cheese primarily in Ukraine, Russia and Kazakhstan, being one of the major CIS players.

Revenue breakdown by product in 2013-2014



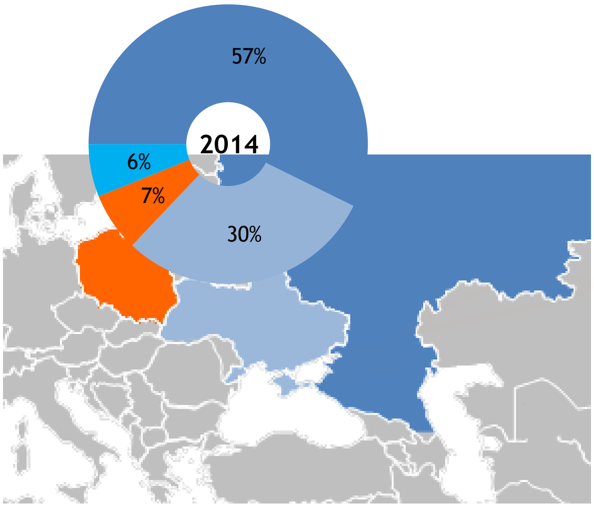
Milkiland's milk powder business has one of the largest and most efficient drying facilities in Ukraine, operating mainly in high season, when raw milk is produced in large quantities. Milk powder and butter are sold both locally and abroad to more than 30 countries worldwide. After integrating Ostrowia in 2012, Milkiland significantly improved its positions in dry milk products, since Ostrowia is equipped with state-of-the-art facilities for production of high value added products (WPC-80 and permeate).

Sales of milk powder products are mostly done on B2B basis, with food-processing companies being the Group's major customers. B2B sales comprised around 16% in the total revenue in 2014.

Milkiland's consumer products are marketed mostly under key brands Dobryana, Ostankinskoye, and Ostrowia. Dobryana is positioned as the Group's international brand actively deployed in Ukrainian and Russian markets. Ostankinskoye is a traditional brand for whole milk products produced by Ostankino Diary Combine, well known by Moscow consumers. Under Ostrowia brand, the Group markets products locally in Poland. In 2014, in order to expand its market presence, Ostankino Dairy Combine introduced a new brand, Tselnoskvasheno, to market high value-added healthy dairy products.

All Milkiland's brands are targeting a wide audience of families that are keen of healthy diet and natural dairy products. Most of the Group's products are medium priced and widely affordable.

Revenue breakdown by geography in 2014



In terms of geographical revenue breakdown, Russia is the largest market for Milkiland contributing about 57% to the Group's total consolidated revenue in 2014. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 30% of the Group's revenue and include all range of dairy products. Poland secured 7% of the Group's total revenue in 2014, while other countries account for 6%.

The geographical breakdown somewhat shifted in 2014 from Russia to other markets in response to restrictions introduced by Russian authorities on the EU and Ukrainian food imports, including dairy products. For more information, refer to *Key Products, Production and Sales* section.

Key Products, Production and Sales

Growing world population, rising incomes and westernization of diets in the Asian countries such as India and China are main growth drivers for the global dairy markets. As local demand in Asia and Africa grows faster than supply, these markets are the key contributors to the increasing international trade with the dairy products globally. At the same time, the global dairy market is highly sensitive to the demand trends and market disruptions in key importers accounting for a quarter of the global imports, China and Russia. The world demand was constrained by the embargo Russia imposed on a number of key producing countries and slowing Chinese demand. This reduction has not been absorbed by other countries thus leading to increased competition.

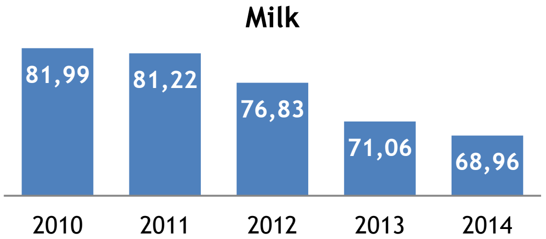
On the supply side, high prices for dairy and declining feed prices in early 2014 supported the dairy production growth. According to the USDA estimations, global dairy output increased by c. 4% y-o-y. This increase in production and a decrease in demand led to a drop in diary prices in 2014. Strengthening US dollar also put a pressure on the world prices.

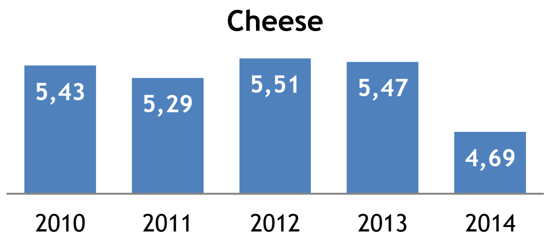
Milkiland defines its home market as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.5 after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals. Starting from 2013, upon launching of Ostrowia operations, the Group is also active in the Polish market.

While per capita consumption of dairy products in Russia and Ukraine is significantly lower than in the developed EU countries, there are a lot of opportunities for using local competence to develop in these countries.

In Russia, the Dairy market is dominated by two categories, Cheese and Milk, which constitute over 60% of the Russian market by value. The third-largest product category, Yoghurt, accounts for another 20% of the market. After Russian authorities introduced a ban on dairy imports from the EU and Ukraine in mid-2014, per capita consumption of dairy products shrunk considerably limited by the supply.

Per capita consumption of dairy products in Russia, kg





Source: http://www.clal.it

In Ukraine, drinking milk represents about half of the total dairy products consumption. Cheese and butter represent another 28% of the total dairy consumption. In 2014, following a considerable drop in the consumer purchasing power, consumers switched to cheaper locally produced varieties, while the general dairy consumption remained stable.

Milkiland is active in all main segments of the dairy market. Contrary to many players focusing on a certain market segment, the Group welcomes diversification, as additional flexibility across the product line helps to manage prices fluctuation, both in raw materials and end products.

The Group allocates its product portfolio into three main groups based mainly on consumer base, marketing and logistics:

- Whole milk product group (white palette) includes all types of packaged fresh dairy with relatively short shelf life;
- Cheese and butter group (yellow palette) are in general longer shelf life consumer products that could be sold in package, or repackaged in retail outlets, or by weight;
- Ingredients are mainly B2B dairy products sold in bulk such as skimmed milk powder, full cream powder, dry whey, permeate, etc. Also, this segment included agricultural products of Milkiland's farms sold to third parties.

Milkiland's core strategic product groups are whole milk products and cheese where the Group sees the most significant growth potential. Butter and milk powder are opportunistic products that are produced for the purposes of diversification and flexibility, in periods when prices are attractive, and there is a surplus of raw milk in the market.

Whole Milk Products Segment

Whole milk is the largest and the most diverse dairy segment in the CIS region. It includes a variety of products such as drinking milk and highly popular cultured products (sour cream, kefir, ryazhenka etc.), and also curd based snacks (tvorog, curd desserts etc.). Yoghurts are a relatively new product to the market, but their consumption has been developing.

From the market perspective, 2014 was a challenging year for the Ukrainian whole milk producers. Declining consumer purchasing power and a conflict in the Eastern Ukraine, as well as annexation of Crimea in spring 2014 led to a reduced demand for dairy products. Industry statistics shows that Ukrainian market for whole milk products shrunk by c. 8% y-o-y.

On the supply side, raw milk prices grew by c. 7% y-o-y as a response to higher input prices caused by the Ukrainian hryvnia devaluation.

In Russia, restrictions introduced by Russian authorities on food products imported from a number of countries, including the EU and Ukraine, contributed to higher demand for locally produced high value-added food products. On the negative side, prices for raw milk grew by almost 19% y-o-y.

Russian embargo also created additional pressure on the local EU market where the raw milk price also dropped as additional volumes of milk became available for processing. In Poland, the average effective raw milk price was 14% lower than in 2013.

The Group's subsidiaries in Russia benefitted from import substitution by gaining their market share and improving profitability in the WMP segment. In order to capitalize on this trend, a modern production line was installed at the Ostankino Dairy Combine, and new line of healthy high value-added dairy products under Tselnoskvasheno brand was introduced to the market.

As the result, Ostankino significantly expanded its presence in national retail chains. In Ukraine, the Group retained its positions of a TOP-10 player in the segment with the market share of about 3%.

Because of a considerable devaluation of the Group's operational currencies, the Group's total revenues in the fresh dairy segment declined by c. 5% and amounted to c. EUR 137 million in 2014. The segment's EBITDA decreased to EUR 9.8 million compared to EUR 12.2 million or by c. 20% on y-o-y basis.

The share of fresh dairy in the Group's consolidated revenues stood at c. 48%, 6 pp. more than in 2013.

In terms of market position, Milkiland is one of the largest players in the CIS after Pepsico's Wimm-Bill-Dann and Danone-Unimilk. Ostankino Dairy Combine is No.3 player on Moscow market, the largest regional market consuming over 1.5 million tons of fresh dairy annually. In Ukraine, Milkiland is a top-10 player, particularly strong in the northern regions of Ukraine where its market share is over 25%.

Whole milk dairy segment remains Milkiland's strong strategic priority, as the Group sees high growth potential here.

According to the Company's estimations, up to 40% of fresh dairy consumption in its core markets still falls to home-made products. Such informal consumption will diminish in favour of industrially processed dairy, thus being significant growth driver in the Group's markets.

The Group believes that it has good assets in right places both in Russia and Ukraine. Ostankino is uniquely located to serve Moscow population with fresh short shelf life dairy. Milkiland's Ukrainian whole milk plants are also favourably positioned nearby large cities such as Kyiv, Lviv, Kharkiv and Kryvyi Rig.

Cheese and Butter Segment

Cheese is the second-largest dairy market in the CIS after whole milk products. In 2014, cheese market in Russia was constrained by supply, as trade restrictions imposed by government on the EU and Ukrainian producers cut imports, while local cheese production stagnated. As a result, the total Russian cheese consumption decreased by c. 15% to a six-year low of approximately 668,000 tons (*source: USDA estimations*). In Ukraine, per capita cheese consumption somewhat improved when closure of the Russian market increased local competition and put pressure on prices in the first half of the year. However, the total domestic sales of cheese declined by c. 2% due to the loss of some part of the Ukrainian territory and the respective market volume decrease.

Rising prices for raw milk and shortage of imported cheese in Russia triggered an increase in cheese prices in both countries in the second half of the year.

According to Institute for Agricultural Market Studies (IKAR), in Russia, cheese imports declined 35% in 2014, including a 63.5% drop in September through December when the embargo was in full force. Local producers increased domestic production by 15% but failed to meet the market demand. As a result, cheese prices skyrocketed by 33.4%, well above the raw milk price increase.

According to the Ukrainian State Statistical Service, in Ukraine, cheese prices were depressed in the first half of the year and started to grow only in September (by 3% compared to August), in response to inputs price rise. By the year-end, cheese prices corrected to the early-2014 levels and finished the year 3% higher.

In 2014, the Group expanded its presence on the Ukrainian cheese market, especially in the second half of the year, when the Russian market closed for Ukrainian producers. However, Milkiland's cheese & butter segment revenues declined by one-third to EUR 105.1 million depressed also by the Ukrainian national currency devaluation. The segment's EBITDA stood at c. EUR 4.9 million, representing a 74% annual decrease. EBITDA margin decreased from 12% in 2013 to 5% in 2014 due to the raw milk price growth and a loss of more profitable Russian market.

In the current situation, the Group's management will put their efforts on the improving profitability of the cheese&butter segment by focusing on local markets. The start of Syrodel operations will allow the Group to gain a market share on the profitable Russian market, while in Ukraine Milkiland offers higher value-added mould and ripe cheese to substitute the imported expensive cheese, which became less affordable for the Ukrainian consumers after the sharp devaluation.

Polish Ostrowia will focus on the local Polish market until the Russian market is closed for the EU producers.

Ingredients Segment

The Group's strategy of diversification and close integration with raw milk suppliers presumes presence in other dairy categories, such as milk powder and other B2B products made from milk. Milkiland's sales in these categories may vary significantly from year to year, depending on global commodity prices for skimmed milk powder, whole milk powder, and butter. Usually Milkiland uses high season of raw milk surplus to dry milk in order to sell it throughout the year.

The USDA Foreign Agricultural Service (FAS) reports that in 2014 global milk supply improved after the unfavourable 2013. This improvement, coupled with lower demand from China triggered a price decline from historically high levels of early 2014.

Globally, the demand for commodity dairy products is rising, as East Asian countries are actively introducing dairy diet to their population, though cannot develop sufficient local supply due to unfavourable conditions for dairy farming. However, in 2014, a slowdown of the Chinese economy led to a lower demand and decreased purchases of dairy products.

This decrease has been particularly impressive for such commodities as whole milk powder (WMP), prices for which decreased from about $5,000 per ton (Oceania FOB) in early January to $2,300 per ton in December.

The global downturn in dairy markets resulted in a margin squeeze for many international producers. In this situation, Ukraine remained the least affected producer of dairy products, as the devaluation of the national currency increased the profitability of export sales.

In 2014, the Group capitalised on these trends and increased its sales of ingredients in volume and value terms.

As the result, Milkiland's revenues in this segment rose by 17% and amounted to EUR 46.6 million. Ingredients sales contributed EUR 4.8 million of EBITDA, representing 10% EBITDA margin (EUR 5.2 million and 13% respectively in 2013).

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2014 and 2013 in thousands Euro.

Selected financial data

	2014	2013
I. Revenues	288,725	340,973
II. Operating profit	(657)	19,192
III. Profit before tax	(74,648)	13,720
IV. Net profit	(72,415)	11,660
V. Cash flows provided by operating activities	7,305	4,819
VI. Cash flows used in investing activities	(5,899)	(21,306)
VII. Cash flows provided by financing activities	(2,206)	6,764
VIII. Total net cash flow	(800)	(9,723)
IX. Total assets	239,851	336,487
X. Current liabilities	121,371	108,742
XI. Non-current liabilities	23,887	52,309
XII. Share capital	3,125	3,125
XIII. Total equity	94,593	175,436
XIV. Weighted average number of shares	31,250	31,250
XV. Profit (loss) per ordinary share, EUR cents	(229.87)	34.67

Income Statement

Summary statement of comprehensive income, '000 EUR

	2014	2013
Revenue	288,725	340,973
Change in fair value of biological assets	1,405	1,305
Cost of sales	(233,837)	(268,810)
Gross profit	56,293	73,468
Operating income (expense), net	(56,950)	(54,276)
Operating profit	(657)	19,192
Net finance expense and other non-operating expense	(73,991)	(5,472)
Profit before tax	(74,648)	13,720
Income tax expense	2,233	(2,060)
Net profit	**(72,415)**	**11,660**
Other comprehensive loss	(6,241)	(11,005)
Total comprehensive income	**(78,656)**	**655**
Net profit attributable to equity holders of the parent company	**(71,835)**	**10,835**
Weighted average number of shares (in millions), as of December 31	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**(229.87)**	**34.67**

Revenue

Almost double devaluation of the Ukrainian hryvna and Russian ruble against Euro undermined the Group's revenue growth in EUR terms despite several increases of prices for finished dairy goods. As a result, in 2014, the Group's revenue declined c. 15% to EUR 288.7 million. In order to partially offset the devaluation effect, the Group increased exports of ingredients to third country markets.

The table below sets forth an overview of the revenue generated by the Group in 2013 and 2014 by product group.

Breakdown of the Group's consolidated revenue by product in 2014-2013

	2014		2013		2014 vs. 2013	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	105,110	36.4%	156,654	45.9%	(51,546)	-32.9%
Whole milk products	137,026	47.5%	144,449	42.4%	(7,423)	-5.1%
Ingredients and other	46,589	16.1%	39,870	11.7%	6,721	16.9%
Total	**288,725**	100.0%	**340,973**	100.0%	**(52,248)**	-15.3%

Sales of cheese and butter decreased by 33% y-o-y to EUR 105.1 million, due to the closure of the Russian market in mid-2014. After the import ban for Ukrainian and the EU dairy products implemented by Russian authorities the Group faced the restricted access to Russian market for export of its Ukrainian and Polish facilities. Start of the Syrodel operations could not fully compensate for this loss. This led to reorientation of the cheese sales to local markets with lower margins. The major part of cheese produced was sold in Ukraine. In terms of volume, cheese sales to Russia halved, while Poland and Ukraine grew 6% and 66% respectively. The Group also increased cheese exports to Kazakhstan and other countries by 43%.

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

Sales of whole milk products declined 5% y-o-y to EUR 137.0 million on a back of local currency devaluation in Russia and Ukraine, and represented approx. 48% of the total consolidated revenue in 2014 vs. approx. 42% in 2012. In terms of volume sales, segment grew by 3%, Ostankino being the major growth driver. For more information on whole milk production and sales, refer section *Key Products, Production and Sales*.

Sales in the Ingredients segment grew by 17% to EUR 46.6 million due to a volume increase and favourable global markets in the first half of the year. The Group enjoyed an improved margin on dry milk products produced in Ukraine due to a considerable cut in costs in euro equivalent. For more information on Ingredients production and sales, refer section *Key Products, Production and Sales*.

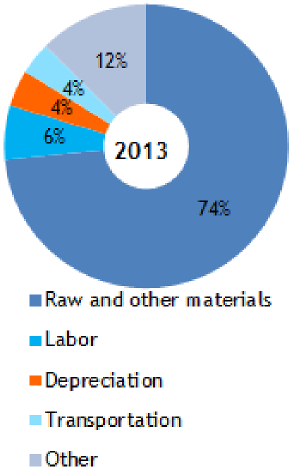
Cost of sales

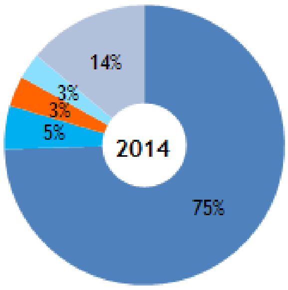
The Group's consolidated cost of sales decreased 13% to EUR 233.8 million, the main driver was 12%-deflated raw materials costs (from EUR 197.6 million to EUR 174.3 million), due to devaluated operational currencies.

While farm-gate prices in both Russia and Ukraine grew by 19% and 7% respectively, the devaluation of national currencies resulted in a drop in the average effective price for raw milk. For more information on milk markets, refer section *Key Products, Production and Sales*.

In 2014, Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The Group continued cooperation with National Milk Cooperative Moloko-Kraina (a nation-wide cooperative that united a number of smaller cooperatives supported previously by the Group). In-house farming facilities focused on better per cow yields to cut the costs.

The Group's cost of sales structure in 2013-2014





In 2014, labour costs dropped by 29% to EUR 11.7 million due to the Russian rouble and Ukrainian hryvnia devaluation, as well as cost cutting at production subsidiaries affected by the cheese exports ban. Social insurance contributions decreased accordingly. Depreciation and transportation costs were lower due to the same reasons. Decreased inventories of finished goods and work in progress at production facilities resulted in EUR 5.8 million in the costs of sales.

Breakdown of the Group's cost of sales in 2014-2013, '000 EUR

	2014		2013	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	174,317	60.4%	197,571	57.9%
Wages and salaries	11,742	4.1%	16,540	4.9%
Depreciation	8,167	2.8%	11,150	3.3%
Transportation costs	6,996	2.4%	9,962	2.9%
Gas	7,727	2.7%	10,100	3.0%
Other	24,888	8.6%	23,487	6.9%
Total	233,837	81.0%	268,810	78.8%

Gross profit

As a result of decreasing top line and a slower decrease in the costs of sales, Milkiland's gross profit decreased by 23% y-o-y to EUR 56.3 million. Gross profit margin decreased from 21.5% in 2013 to 19.5% in 2014.

Selling and distribution expense

The Group's selling and distribution expenses decreased by 19% from EUR 28.8 million in 2013 to EUR 23.4 million in 2014 and represented 8.1% in the consolidated revenue in 2014 vs. 8.5% in 2013. The share of selling and distribution expenses in the total revenue shrank as a result of cut in costs associated with additional customs checks at Russian borders after introduction of strict customs procedures for all Ukrainian exports, which were in place in 2013. Transportation expenses decreased slower than other selling and distribution expenses due to a rise in fuel prices denominated in the operating currencies. At the same time, labour-intensive costs decreased significantly due to operational currencies devaluation. Marketing and advertising expenses grew as new products were introduced by Ostankino to the market.

Administrative expense

The Group's administrative expenses decreased from EUR 31.9 million in 2013 to EUR 23.7 million in 2014, representing 8.2% in the consolidated revenue in 2014 vs. 9.3% in 2013. A 25% decrease in labour costs is associated with the operational currencies devaluation. Social insurance contributions dropped in line with the wages and salaries.

Other expenses, net

In 2014, the Group received EUR 9.9 million other operating expense instead of EUR 6.4 million other income in 2013. The key reason for this is a decrease in government subsidies recognised as income representing special VAT procedures on agricultural operations and government subsidies to dairy farmers due to a cut in government expenditures on dairy farming. A negative change in provision and write off of trade and other accounts receivable is associated with an increase in past due and impaired debts compared to 2013.

Operating profit and EBITDA

Despite optimization in operating costs, lower gross profit resulted in the Group's operating loss of EUR 0.7 million and in a 49% decrease in the consolidated EBITDA to EUR 17.1 million. EBITDA margin was depressed from 9.8% to 6.0% in 2014.

Finance expense

In 2014, financial expense related to bank borrowings grew 15% as a result of loan portfolio increase. The devaluation of Ukrainian hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 65.2 million.

Profit before tax and Profit for the year

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 74.6 million. Net loss for 2014 accounted for EUR 72.4 million.

Financial Position

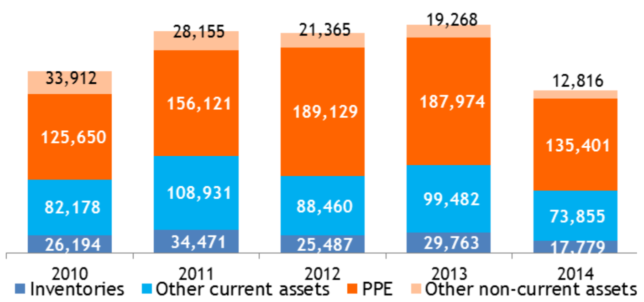
Summary balance sheet as at December 31, '000 EUR

	2014	2013
Cash and cash equivalents	10,431	13,056
Trade and other receivables	50,615	62,088
Inventories	17,779	29,763
Current biological assets	1,901	7,538
Current income tax assets	367	19
Other taxes receivable	10,541	16,781
Total current assets	***91,634***	***129,245***
Goodwill	2,147	3,426
PPE	135,401	187,974
Non-current biological assets	2,017	4,102
Other intangible assets	2,286	3,335
Deferred income tax assets	6,366	8,405
Total non-current assets	***148,217***	***207,242***
Total assets	**239,851**	**336,487**
Trade and other payables	22,535	26,948
Current income tax liabilities	384	239
Other taxes payable	2,063	2,271
Short-term loans and borrowings	96,389	79,284
Total current liabilities	***121,371***	***108,742***
Long-term loans and borrowings	5,531	24,475
Deferred income tax liability	18,005	27,177
Other non-current liabilities	351	657
Total non-current liabilities	***23,887***	***52,309***
Total liabilities	**145,258**	**161,051**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	68,502	48,752
Currency translation reserve	(45,845)	(18,277)
Retained earnings	17,676	88,050
Total equity attributable to equity holders of the parent company	***92,145***	***170,337***
Non-controlling interests	2,448	5,099
Total equity	**94,593**	**175,436**
Total liabilities and equity	**239,851**	**336,487**

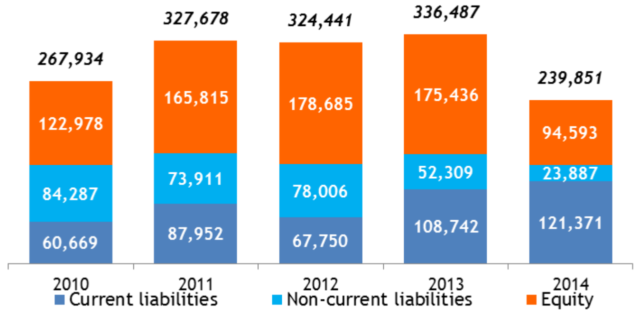
Capital structure and solvency analysis information

	2014	2013
Total debt ratio	0.61	0.48
Debt to equity ratio	1.54	0.92
Net debt/EBITDA	5.35	2.71
Net debt/sales	0.32	0.27

Assets structure in 2010-2014, '000 EUR



Equity and liabilities of the Group in 2010-2014, '000 EUR



Assets

The Group's total assets decreased by 29% from EUR 336.5 million as of December 31, 2013, to EUR 239.9 million as of December 31, 2014.

During 2014 cash and cash equivalents decreased from EUR 13.1 million to EUR 10.4 million (20%), after the Group paid dividends based on the results of 2013.

The devaluation of national currencies in the countries where a large part of the Group's production assets is located led to a decreased in the euro-denominated inventories. Another reason for this 40% drop was a cut in cheese production volumes in the second half of the year due to the closure of the Russian market for Ukrainian and EU producers. Accounts receivable decreased by 18%, to EUR 50.6 million, over the year. Total trade accounts receivable declined by 16% to EUR 39.6 million due to the lower sales.

Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2014, VAT receivable decreased by 37% due to a decrease in export sales and reorientation to the local markets.

Non-current assets decreased by 28% to EUR 148.2 million mainly due to the devaluation of Ukrainian hryvnia and Russian rouble.

Current assets represented 38% of the total assets, non-current assets, 62% (the same level as on December 31, 2013).

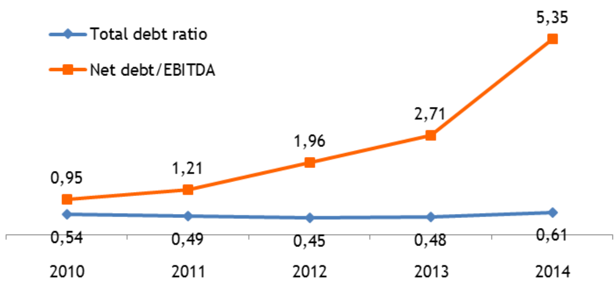
Liabilities and equity

The Group's total liabilities decreased by 10% over 2014, from EUR 161.1 million to EUR 145.3 million as of December 31, 2014. Current liabilities grew 12% to EUR 121.4 million, while non-current liabilities dropped by 54% to EUR 23.9 million. Such changes in liabilities breakdown were mainly due to reclassification of some part of long-term loans and borrowings into short-term loans, which are due within less than 12 months. The average interest rate for short-term loans grew from 10.35% to 10.92%, for long-term loans fell from 10.56% to 7.53%.

Net debt of the Group stood at EUR 91.5 million as of December 31, 2014. Total Debt Ratio constituted 0.61 vs. 0.48 in 2013. Net Debt/EBITDA ratio increased from 2.71 to 5.35 due to increased indebtedness and lower euro-denominated EBITDA.

For more information on loans and borrowings contracted by the Group, refer to *note 16 to the Consolidated Financial Statements* and section *Material Factors and Events*.

Debt ratios of the Group in 2010-2014



More than doubled currency translation reserve (EUR -45.8 million on December 31, 2014 vs. EUR -18.3 a year before), as well as an 80% decrease in the retained earnings contributed to

c. 46% decrease in the Group's total equity. This decrease in retained earnings is mainly associated with the Group's foreign exchange loss due to operational currencies devaluation.

Current liabilities represented 51% of the total equity and liabilities, non-current liabilities 10%, and equity 39% as of December 31, 2014 (32%, 16%, and 52% respectively in 2013).

Decrease in the Group's current assets and increase in short-term loans and borrowings led to a working capital deficit of EUR 29.7 million. At the same time, the Group's cash ratio fell from 0.12 to 0.09 in 2014.

Increase in the current liabilities due to the growth of short-term loans led to a decrease in the current and quick ratios to 0.75 and 0.61 respectively.

Over 2014 the Group's average operating cycle had little changes.

Balance sheet items and liquidity analysis

Ratios	**Definitions**	**2014**	**2013**
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	30.05	31.86
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	71.24	66.46
Average payment period, days	Average trade payables to cost of sales times number of days in the period	38.62	36.59
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	62.67	61.73
Working capital, '000 EUR	Current assets less current liabilities	(29,737)	20,503
Current ratio	Current assets to current liabilities	0.75	1.19
Quick ratio	Current assets less inventories to current liabilities	0.61	0.91
Cash ratio	Cash and cash equivalents to current liabilities	0.09	0.12
ROE, %		-78.6%	6.8%
ROA, %		-79.0%	9.0%

Summary cash flow statement

	2014	2013
Cash flow from operating activities:		
Operating cash flows before working capital changes	17,254	30,607
Changes in assets and liabilities, net	(163)	(13,491)
Cash provided by (used in) operations:	(9,786)	(12,297)
Net cash from operating activity	**7,305**	**4,819**
Investing activities:		
Proceeds from sale of property, plant and equipment	376	100
Acquisition of property, plant and equipment	(6,275)	(20,918)
Acquisition of subsidiaries, net of cash acquired	-	(488)
Increase of other non-current assets	-	-
Net cash from investment activity	**(5,899)**	**(21,306)**
Financing activities:		
Acquisition of non-controlling interest	-	(1,416)
Commission paid	(41)	(109)
Dividends paid	(2,187)	(2,500)
Proceeds from borrowings	81,848	71,437
Repayment of borrowings	(81,826)	(60,648)
Net cash from financial activity	**(2,206)**	**6,764**
Net increase in cash	**(800)**	**(9,723)**
Effect of exchange rate changes on cash and cash equivalents	(1,825)	(1,071)
Cash at beginning of the period	13,056	23,850
Cash at the end of the period	10,431	13,056

Net cash at the end of the period decreased by 20% to EUR 10.4 million due to a negative cash flow from the financial activities. Milkiland relies on cash provided by operating activities as a primary source of liquidity in addition to debt and equity issuances in the capital markets.

Key Investments in 2014 and Sources of their Financing

In 2014, the Group's key investments were addressed to modernization of its Russian subsidiaries Ostankino and Syrodel. Syrodel went through an all-inclusive modernization and launched cheese production under King Arthur brand to meet the needs of local clients. To capitalize on the favorable market situation in Russia, Ostankino expanded its fresh dairy capacities and launched a ground cheese production line.

The following table represents the Group's key investments in 2010 through 2014 by type.

Key investments in 2010 through 2014, thousands of Euros

	2014	2013	2012	2011	2010
Property, plant and equipment	6,275	20,918	34,548	5,552	6,327
Acquisition of associates and subsidiaries	0	488	14,146	5,305	7,540
Total investments	**6,275**	**21,406**	**48,694**	**10,857**	**13,867**

Last year's investments were financed mainly from operational cash flows and loan financing from Ukrainian, Russian and Polish banks. For more details on the Company's financial arrangements in 2014, refer to section *Material Factors and Events*.

Investment Plans for 2015 and Sources of their Financing

The Group's investment budget for 2015 will be limited to the maintenance costs because of the requirements of lenders and will comprise up to c. EUR 2.0 million.

For more information, refer to section *Fulfilment of Strategy in 2014 and Outlook for 2015*.

In 2015, the Group intends to finance its investment program mainly from its operational cash flows with partial debt financing.

Basis of Preparation

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

Shareholder Structure

As of December 31, 2014, the following shareholders provided information concerning direct or indirect (through subsidiaries) ownership of at least 5% of the total votes at the General Shareholders Meeting of Milkiland N.V.

Shareholder structure of Milkiland N.V. as of December 31, 2014

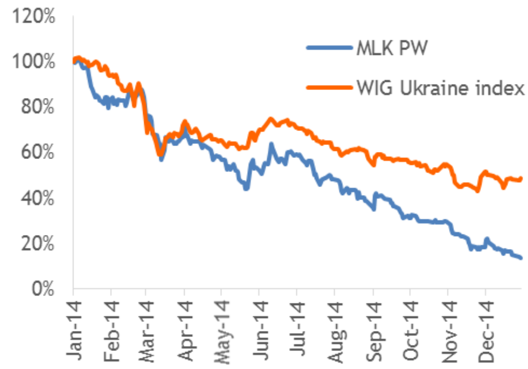
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,973,588	73.52%	22,973,588	73.52%
R-Assets Cooperatief U.A.	1,562,800	5.00%	1,562,800	5.00%
Aviva Otwarty Fundusz Emerytalny	1,793,479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

Share Price Performance

In 2014, Milkiland share price was volatile due to a number of adverse political and economic factors. International sentiment about Ukraine remained pessimistic, with major concern about the full-fledged armed confrontations in certain parts of the Donetsk and Lugansk regions and significant deterioration of the economic situation. The Group still has major part of its business in Ukraine, hence overall scepticism had an impact on Milkiland's shares. Sector-specific restrictions imposed by the Russian government on the EU and Ukrainian food products were additional Group-specific reasons for concern.

By the year-end, Milkiland was trading with EV/EBITDA'14 of 6.0x.

Share price performance of Milkiland N.V.



Source: Bloomberg

Milkiland N.V. significant stock quotation data, 2014-2013

	2014	2013
Opening price (PLN)	10.98	14.12
Highest trading price (PLN)	10.98	15.88
Lowest trading price (PLN)	1.48	9.75
Closing price (PLN)	1.48	12.5
Closing price (EUR)	0.35	3.01
Stock performance (absolute)	-86.52%	-13.40%
Stock performance (relative to WIG)	-86.10%	-20.30%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	(229.87)	34.67
Price / earnings (P/E) as of December 31	-0.2	8.7

Source: Bloomberg, management estimates

	2014	2013
Market capitalization as of 31 December (PLN million)	46.3	390.6
Market capitalization as of 31 December (EUR million)	10.9	94.2
Net debt (EUR million)	91.5	90.7
EV (EUR million) as of December 31	102.3	184.9
EV / EBITDA as of December 31	6.0	5.5
Free float (PLN million)	9.9	83.9
Free float (EUR million)	2.3	20.2
Average daily turnover (PLN thousand)	39.3	141.3
Average daily turnover (EUR thousand)	9.4	33.7

Management and Personnel

Composition of the Company's Board

As of December 31, 2014, the composition of the Board of Directors of Milkiland N.V. was as follows:

- Oleg Rozhko, (Non-Executive Director, Chairman of the Board of Directors);
- Anatoliy Yurkevych (Executive Director, Chief Executive Officer);
- Olga Yurkevich (Executive Director, Chief Operation Officer);
- Vyacheslav Rekov (Non-Executive director, member of the Audit Committee);
- Willem S. van Walt Meijer (Non-Executive director, Chairman of the Audit Committee);
- George Logush (Non-Executive director);
- Vitaliy Strukov (Non-Executive director).

For information on the Company's remuneration policy and remuneration of the members of the Board of Directors, refer to *Corporate Governance Report, section Remuneration Report*.

Other information

Except for Mr. Anatoliy Yurkevych and Mrs. Olga Yurkevich, who indirectly together hold 73.5% of the Company's shares, and Mr. Vyacheslav Rekov, who indirectly holds 5.0% of the Company's shares, neither member of the Company's board of Directors nor any Key Executive holds any shares or stock options over such shares in the Company.

During the last financial year, there were no agreements concluded between the Company and its management personnel, which provide for compensation in case of their resignation or being removed from their position without a good reason, or being removed as a result of the Company being merged into another company.

Personnel

As of December 31, 2014, Milkiland employed 6,753 people. Out of them, 54 specialists were employed by LLC Milkiland N.V., the head company of the Group in Kiyv. Another 164 persons worked for the head office of Ukrainian subsidiary of the Group, Milkiland-Ukraine.

As Milkiland's production activities are arranged through production subsidiaries (cheese and whole milk products plants), the majority of the Company's personnel is based in Ukrainian regional production units (5,341 people, including 559 employees in Milkiland Agro and its subsidiaries).

Milkiland EU, the head company of the Group in Warsaw employed 29 specialists. While the Polish production facility, Ostrowia cheese production plant had 183 employees.

The Group's Russian head-company Milkiland RU and Moscow-based Ostankino dairy combine employed 13 and 847 people, respectively. Other Russian subsidiaries had 176 employees in total.

The key companies within the Group, first of all, the holding company Milkiland N.V. and its subsidiaries such as Ostankino, Milkiland RU, and Milkiland EU, have their own HR departments and are responsible for hiring and dismissing their personnel. Candidates for top-managerial and other key positions for all companies of the Group are being selected by the HR Department of Milkiland N.V. only.

Candidates' selection is conducted through the formal procedure ensuring sufficient level of required skills and compliance to the Group's corporate culture.

Staff structure comprises about 4.5% of top managers, 7.8% other managerial stuff, and about 15.2% is service staff. The remaining 72.5% is mainly work force.

Milkiland provides equal employment and personnel development opportunities to professionals in Ukraine, Russia and Poland regardless of their gender, religion, nationality or political preferences.

Training and Professional Development

The Group strongly believes that high level of competency of its employees is a key factor of efficiency and market success. In 2014, the internal and external training programs were developed for the key jobs. 1,907 employees or more than one quarter of the Group's employees were trained. Production and technical employees were trained under staff development programs focusing on production safety and quality management, including HACCP-oriented programs at Ostankino, EU quality and safety requirements at Milkiland-Ukraine. All new employees completed skill development on-boarding programs.

Corporate Social Responsibility

The Group being one of the leading dairy producers, measures success not only in terms of financial criteria but also in building customer safety and satisfaction, employee engagement, maintaining strong governance practices and supporting the communities we serve.

The Group is not only focused on environmental issues by implementing state-of-the-art technologies and making the chain and the production process more sustainable, but also undertakes a responsibility to support the local communities where the Group operates by developing social infrastructure and investing in creation other social values. In 2014, Milkiland continued supporting of local communities in areas where production assets are located. Primarily, this is day-to-day aid such as repairs of schools and kindergartens, purchasing of the gifts for children, charity payments to local NGO's.

Milkiland's Ukrainian subsidiaries also provided assistance to the Ukrainian Army in its Anti-Terror Operation in the Eastern Ukraine. A special program was developed to support those employees drafted to the army and their families.

Material Factors and Events

Material factors and events during the reporting period

Material factors in the Group's marketing

Sales and Distribution Agreements

The Group's products are sold primarily in Ukraine and Russia. A part of sales goes to other CIS countries such as Kazakhstan, Moldova etc. The Group in 2014 also received revenues from selling products outside the CIS. The Group sells its products through local retailers and through dealers and distributors as well. The Group also participates in public tenders to supply dairy to kindergartens, schools, and other social institutions.

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

Export restrictions

In April 2014, Russian consumer protection agency, Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor) suspended imports from six Ukrainian dairy producers, including Okhtyrka cheese combine, for alleged violations of regulations after conducting laboratory tests.

In July, Rospotrebnadzor suspended the imports to Russia of milk and dairy production produced by seven Ukrainian subsidiaries of Milkiland Ukraine. These restrictions did not address any specific products but a group of seven production facilities, four of which had not supplied anything to the Russian Federation for over five past years.

All appeals to examine the problems and to develop an action plan to address them were ignored by the agency.

Later in July, Russia's Veterinary and Phytosanitary Surveillance Service (VPSS) banned all dairy supplies from Ukraine citing a lack of quality control.

Ukraine supplied up to 10% of the total cheese volume consumed in Russia before the worsening of the trade relations, with Ukrainian producers complying with all requirements of Russian Federation and the Customs Union.

In August 2014, Russian government banned fruit, vegetables, meat, fish, milk and dairy imports from the United States, the European Union, Australia, Canada and Norway. The decision followed a decree signed by President Vladimir Putin ordering the government to ban or limit food imports from countries that imposed sanctions on Moscow for its support of rebels in eastern Ukraine and the annexation of Crimea.

Financing arrangements

Restructuring of the Loan Facility by a Syndicate of international Banks

On September 24, 2014, Milkiland published an official statement that it failed to fulfil some conditions of the Loan Facility Agreement with a syndicate of international banks and started negotiations to sign a Loan Restructuring Agreement with the banks representing the syndicate.

Credit Agricole Bank facilities

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

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

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

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

On September 2, 2014, Milkiland officially started negotiations with Credit Agricole Bank to sign a Loan restructuring agreement due to negative changes in economic and political environment. On November 28, 2014, the Group signed additional agreement with Credit Agricole Bank for prolongation of USD 7.5 mln payment till January 31, 2015.

Bank of Moscow facilities

On March 11, 2014 Ostankino and Bank of Moscow entered into the one-year blank loan agreement on the opening of credit line with maximum limit of RUB 150 million (EUR 3.0 million).

Appointment of the CEO of Milkiland Ukraine

On 24 June, 2014, Mr. Viktor Rzhavichev was appointed at the position of the CEO of Milkiland Ukraine, a subsidiary of the Company which controls the Milkiland Group assets in Ukraine.

Mr. Rzhavichev has been working in the dairy industry since 2005. From 2005 to 2007 he held the position of National Coordinator for the supply of raw materials to Shostka dairy processing plant. Since 2007 he has worked in Milkiland Ukraine as a director of the Department of procurement of raw materials where he was engaged in the formation of the annual budget, resource development planning areas in 18 regions of Ukraine, planning and coordination of commodity services businesses, as well as run the central office of the raw material. Currently, he is responsible for strategic business development of Milkiland Ukraine on the Ukrainian and export markets.

Mr. Rzhavichev graduated from National Agrarian University and holds a degree of a Doctor of Veterinary Medicine and an MBA degree in Agrarian Business Management.

Appointment of the CEO of Milkiland EU

On July 8, 2014, Mrs. Inna Bilobrova was appointed at the position of the CEO of Milkiland EU sp. z o.o., a subsidiary of the Company, which controls the Milkiland Group assets in Poland.

Mrs. Bilobrova, prior to this appointment, headed the Commercial Department of Milkiland Ukraine, was responsible for developing sales plan and control its execution. Before joining Milkiland, Mrs. Bilobrova was working at OJSC Progress as Director of representative office. Earlier in her career Mrs. Inna Bilobrova had occupied a number of top management positions in such companies as Alkon-Plus, and Ukrainian dairy producer TH Lasunya.

She graduated from the Kyiv National Economical University, with focus in Banking, in 2002.

Material factors and events after the reporting date

Restructuring of the Loan Facility by a Syndicate of international Banks

Since the beginning of 2015 the Group has been continuing the negotiations with a syndicate of international banks in order to sign Stand-still agreement with the banks representing the syndicate.

The total sum of the Group's indebtedness to syndicate as of 31 December 2014 stood at USD 58.58 million, including an overdue amount of USD 24.72 million in respect of a Syndicate of international Banks loan.

Restructuring of the Loan facility by Credit Agricole Bank

Since the beginning of 2015, the Group has been continuing the negotiations with Credit Agricole Bank in order to sign a Loan restructuring agreement.

The total sum of the Group's indebtedness to Credit Agricole Bank as of 31 December 2014 stood at USD 14.46 million, including an overdue amount of USD 0.32 million.

Fulfilment of Strategy in 2014 and Outlook for 2015

Strategic priorities

Milkiland's strategic goal is to become an international diversified dairy Group with clear market leadership in cheese and strong position in whole milk products segment in CIS, capitalizing on the development of this one of the largest and fastest growing dairy markets globally. Milkiland intends to grow both organically and through acquisitions, tapping the consolidation potential, especially in cheese segment.

Milkiland distinguishes itself as "supplier of choice" for consumers in its core markets (Ukraine, Russia and Poland) offering a full range of everyday dairy products at the highest value for money. The Group aims to achieve and maintain this by controlling the whole supply chain — from farm to people's homes, and thus ensuring high quality and affordable price.

Milkiland's primary focus is fresh dairy and cheese, the largest and fast growing dairy segments of CIS dairy market. The Group believes that it knows how to create products appealing to its consumers with their healthy, genuine qualities and superior taste.

One of the main challenges the Group faces is restricted supply of raw milk in Ukraine and Russia, resulting from long-term structural shifts in agricultural sectors of both countries. Milk deficit creates opportunities for raw milk producers, and dairy farms are becoming attractive investments.

Milkiland appreciates the importance of quality and affordable raw milk, and therefore sets vertical integration as one of its cornerstone strategic initiatives. In order to address milk supply bottleneck, the Group focused on development of its own dairy farming business controlled by its Milkiland-Agro subsidiary, as well as improving long-term relations with third party suppliers. Milkiland's strategic goal is to secure up to 60% of raw milk supplies in Ukraine from reliable sources such as own farms and long-term partnerships with thirds party suppliers (cooperatives and farms).

In order to diverse a country risks, diminish an influence of possible trade barriers, the Group in 2012 established a footprint in EU market by acquisition of dairy asset in Poland. Obtainment of a status of EU dairy producer not only allowed to the Group to improve a logistics in Milkiland's core markets but also to catch a potential of EU dairy market.

With the same logic of diversification the country risk, the also Group focuses on localization of the cheese production in Russia that we consider as our core market.

In addition, the Group through its Milkiland Intermarket subsidiary is participating in global trade by commodity dairy goods, including dry milk and whey products, in order to have another degree of flexibility and capture attractive opportunities that arise on periodical basis in commodity markets.

Strategy fulfilment in 2014

Last year, the Group made additional efforts aimed at the expansion in the domestic dairy market of Ukraine. In particular, Milkiland's share in the cheese segment increased from 6.2% in 2013 to 8.1% in 2014. The Group secured a position of TOP-3 player in this segment.

After the implementation of import restrictions against Ukrainian and EU dairy producers by Russian authorities, possibilities of import substitution appeared in the Russian market. In order to capitalize on them, Moscow-based Ostankino Dairy Combine installed the new production line and increased its output of high valued-added fresh dairy products under Givo and Tselnoskvasheno brands. The respective investments were about EUR 1.0 million. In the situation of gradual disappearing imported dairy goods in the market, Ostankino managed significantly improve its sales and margins, especially in the key accounts channel.

Limitations of access to the export cheese market in Russia both for Ukrainian and Polish subsidiaries of the Group, imposed in April-August of 2014, respectively, pushed the Group to accelerate an efforts aimed at the localization of cheese production in Russia. In the course of these efforts, extensive reconstruction was made in Rylsk cheese plant of the Group in Kursk region of Russia. The total capacity of the plant after reconstruction was increased by 2.4 times to over 5,000 tons of cheese per annum. Respective investments in Rylsk amounted c. EUR 0.5 million.

In its geographic diversification efforts, the Group in 2014 continued a development of its Polish division, which controls Ostrowia cheese plant. As the result, Ostrowia obtained an export permission to Russia in May 2014 and successfully proceeded with the export to this country in June-July 2014 until the implementation of trade restrictions by Russian authorities (for additional information refer to *Material Factors and Events* section).

Also Ostrowia started a development of distribution in the domestic market of Poland trough introduction and promotion of several types of traditional curd and hard cheese, including the most successful Milkiland's original cheese type King Arthur.

In 2014 Milkiland continued its vertical integration efforts by further development of in-house milk production by Milkiland-Agro subsidiary. In particular, we concentrated at the optimization of milking cows headcount and improving of milk yields. As an outcome, the raw milk output in 2014 grew by c. 6% to c.14.3 thousand tons in comparison to 2013, mainly on the back of noticeable increase of milk yield per head by c. 22% on y-o-y basis.

In order to secure raw milk supply from small and individual farmers, the Group continued supporting the milk cooperative Moloko-Kraina, that in 2014 contributed c. 28% of Milkiland's milk intake in Ukraine. In 2014, Moloko-Kraina focused on building its management team, improvement of member quality and increase in operational efficiency. Thus, Moloko-Kraina is well positioned to make next steps in its expansion.

In 2014, the Group paid an attention of development of Milkiland Intermarket business aimed at the expansion in third countries markets and searching for possibilities of sales in new geographies. As the result, in 2014 revenues of this subsidiary grew by c. 67% in comparison with 2013 mainly on the back of higher cheese volumes sales in Kazakhstan and increased sales of dry milk products in the global market.

Strategic challenges of 2014

During last several years Milkiland capitalized on the development of mainly export oriented business model. In particular, the Group enjoyed the status of leading exporter of Ukrainian cheese. Appreciating the high-marginal Russian dairy market, the Group made several targeted steps to secure a strong position, primarily in its cheese segment. This logic stood behind an acquisition of Ostrowia cheese plant in Poland and localization of cheese production within Russia in Rylsk.

The events of 2014, when the escalating conflict between Ukraine and Russia led to multiple restrictions and limitations in multilateral trade between Russia, Ukraine and EU, led the above business model of the Group to crisis.

Significant decline of export cheese sales both by Ukrainian and Polish subsidiaries of the Group in Russia together with deterioration of macroeconomic conditions in Ukraine and then in Russia, put a pressure on the Group's operational and financial results in the last year.

In particular, deep devaluation of Ukrainian hryvnia and also Russian rouble in 2014 (by c. 73% and 52%, respectively) suppressed the Group's top-line in EUR terms by 15% on y-o-y basis.

The EBITDA declined roughly by a half.

In order to address these challenges, in 2015 Milkiland's management are aiming their efforts on changing the business pillar of the Group from export orientation towards increased excellence in all of the markets of the Group's operations.

As an important consequence of the above mentioned difficulties, on September 24, 2014, Milkiland officially informed that it failed timely to fulfill several conditions of the Loan Agreement with a syndicate of international banks and started a negotiations to sign a Loan Restructuring Agreement with the Banks representing a syndicate (for additional information refer to section *Material Factors and Events).*

Strategic outlook for 2015

To improve the local competence, in 2015 Milkiland will focus on participation in import substitution in the markets of Russia and Ukraine, developing an effective distribution network in Poland and also catching opportunities in the global commodity markets.

In particular, the Ukrainian division will concentrate on gaining a new market share in the traditional cheese and whole-milk products segments, as well as on development in niche segments, including mould and lactose-free cheese. In order to catch the momentum of improved competiveness of Ukrainian-made dry milk products after the deep devaluation of Ukrainian hryvnia, the Group is going to increase an export of these products to global market.

Milkiland's Russian division, which gained a positive momentum in 2014 both in terms of increased sales and profitability, will focus on maintaining this trend in 2015, including through further participation in import substitution, as well as growing local cheese production in Russia.

The main goals of Milkiland EU in 2015 will be development of local distribution network in Poland and finding new export possibilities within and outside the EU in order to secure growth of the business both locally and internationally.

Last but not the least, the Group is going to finish the negotiations with the syndicate of international banks and sign the Loan

Restructuring Agreement with the Banks representing the syndicate.

The Group's investment budget for 2015 will be limited just on the maintenance level because of the requirements of syndicate and will stand on the level of c. EUR 2.0 million.

Material Risk Factors and Threats to the Group

The Group's business, financial condition and results of operations could materially affected by a number of risks.

Described below are the risks and uncertainties that, we believe, are material, but these risks and uncertainties may not be the only ones faced by the Group.

Business and industry risks

Exports to Russia

Cheese exports from Ukraine to Russia are subject to approval by the Russian Veterinary and Phytosanitary Authority. In January 2006, the Russian Federation imposed a ban on imports of all dairy products from Ukraine due to the alleged violation of veterinary and sanitary standards by the Ukrainian dairy producers. As a result, a number of Ukrainian cheese makers suffered damages.

In April 2014, the Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance imposed restrictions on export of dairy products produced by largest Ukrainian dairy producers, including Milkiland's Okhtyrka, because of perceived violations of Russian technical requirements. In July, Russia banned all dairy and milk-containing imports from Ukraine.

In August 2014, Russian government introduced an embargo on food products imported from the countries supporting sanctions over Russian Federation on annexation of Crimea and support for insurgents in the Eastern Ukraine. The list included, inter alia, the EU countries, the USA, Canada, Australia and other.

For more details on the current situation with Russian export restrictions, refer to section *Material Factors and Events*.

There can be no assurance that Russia will not apply such or similar measures towards the Group or its subsidiaries in the future. If applied, such measures could have a material adverse impact on the Group's business.

Input cost increase

The Group's business is subject to price fluctuations and shortages which sometimes are beyond its control. Although historically the Group has been able to pass on increases in raw material prices to its customers, there is no assurance that it will be able to do so in the future as this will depend to a large extent on market conditions. Even if the Group is able to pass these costs on to consumers, an increase in selling prices may inhibit consumer appetite for its products. For these reasons, significant increase in price of raw materials could materially adversely affect the Group's business.

Raw milk deficit

Raw milk is a key input in the Group's production process and ensuring a sufficient supply of raw milk is crucial for the Group's business. The production of raw milk in Ukraine and Russia is stagnating over last years and is subject to seasonal fluctuations, with a surplus typically being produced in spring and summer while there is a reduction in supply during the winter months. Therefore, the Group could face difficulties in sourcing supplies of raw milk on commercially acceptable terms. This could materially adversely affect the Group's business.

Exports VAT refunds

Although not specific to the agricultural industry, the Group benefits from additional VAT refunds in connection with its exports sales. Because exports sales are generally taxed at the rate of 0%, the Group's input VAT is subject to reimbursement by the government. Due to a high budget deficit in Ukraine, many taxpayers entitled to VAT refund may not receive such refund on a timely basis. Although the Group until now managed to collect VAT receivables on exports in sufficient amounts, there is a risk that any failure by the Group to receive such refunds may adversely affect its results of operations.

Contamination of the Group's products

As a producer of food products, the Group's business is subject to certain risks related to the actual or alleged contamination or deterioration of its ingredients or its principal products, or of similar products sold by other producers. Any such actual or alleged contamination or deterioration could adversely impact the Group's reputation, sales and profitability.

Competitive pressure

Failure by the Group to anticipate, identify or react to changes in consumer tastes or in competitors' activities could result in reduced demand for the Group's products, which in turn could result in the Group not being able to maintain its market shares or to recover development, production and marketing costs.

Antimonopoly proceedings

As the Group is one of the leading milk processors in Ukraine with strong positions nationwide and specifically in the regions of its operations, it could be subject of legal proceedings, including those under competition legislation, which could have an adverse effect on the Group's future business.

Country risks

Economic considerations

The global financial crisis, as well as recent political changes in Ukraine have led to significant decrease in economies of Milkiland's home markets. The negative trends in Russian and Ukrainian economy may continue if local governments are not able to overcome crisis consequences, or if global slowdown resumes. In this case, Milkiland's business might be negatively affected.

Exchange and interest rate risk

Fluctuations of exchange rates of Hryvnia, Rouble or other currencies may have an adverse effect on the financial results of the Group.

Risks of legislation and judicial system

The Russian Federation and Ukraine are still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental laws have only recently become effective. The recent nature of legislation and the rapid evolution of the respective legal systems result in ambiguities, inconsistencies and anomalies in their application. In addition, legislation in Russia and Ukraine sometimes leaves substantial gaps in the regulatory infrastructure.

All of these factors make judicial decisions in the Russian Federation and Ukraine difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these weaknesses could affect the Group's ability to enforce its rights or to defend itself against claims by others, which could have a material adverse effect on the Group's business.

Political and governmental considerations

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

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

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

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

Shifts in governmental policy and regulation in Russia and Ukraine may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the governments of Russia and Ukraine could lead to political instability, which could have a material adverse effect on Milkiland's business.

CORPORATE GOVERNANCE REPORT

Introduction

Milkiland N.V. (the "Company"), having its registered office in the Netherlands and which shares are admitted to trading on a regulated market, is subject to the principles and best practice provisions of the Dutch Corporate Governance Code (the "Code"). The Code was last amended on December 10, 2008 and can be found
at www.commissiecorporategovernance.nl.
Moreover, since its shares are listed on the Warsaw Stock Exchange, the Company is subject to the principles of Corporate Governance as stated in the Corporate Governance Code of the Warsaw Stock Exchange (the "WSE Code") which can be found at www.corp-gov.gpw.pl/lad_corp.asp.

The Code contains principles and best practice provisions that regulate relations between the management board, the supervisory board and the general meeting of shareholders. The Company should state each year in its annual report how it applied the principles and best practice provisions of the Code in the past year and should, where applicable, carefully explain why a provision was not applied. It is up to the shareholders to call the management board and the supervisory board to account for compliance with the Code.
The Code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

Main points of corporate governance structure

The Company is a public company with limited liability (*naamloze vennootschap*) incorporated under Dutch law, having its registered office at Hillegomstraat 12-14, 1058 LS, Amsterdam, the Netherlands. The Company has seven subsidiaries: JSC Ostankino Dairy, Milkiland RU LLC that has 1 subsidiary (all – Russian Federation), DE Milkiland-Ukraine, Milkiland N.V. LLC (all – Ukraine), MLK Finance Limited (Cyprus), Milkiland Intermarket (CY) LTD (Cyprus), that has 1 Ukrainian and 1 Kazakhstan subsidiary, Milkiland EU Sp. z o.o. (Poland) that has 1 Polish subsidiary. The Ukrainian companies have 45 subsidiaries, including 44 Ukrainian companies and one Panamanian.

Board of Directors

The Company has a one-tier corporate governance structure, managed by the Board of Directors. The Board of Directors is responsible for the management of the Company, its overall results, as well as its mission, vision and strategy. The Board of Directors consists of seven directors: two Executive and five Non-Executive Directors. Three Non-Executive Directors (Mr. W.S. van Walt Meijer, Mr. G.C. Logush and Mr. V. Strukov) are independent.
The Board of Directors charges the Executive Director(s) with the operational management of the Company, the preparation of the decision-making process of the Board of Directors and the implementation of the relevant decisions. The Executive Director(s) determine the division of duties between them. A division of tasks between the Directors may be determined by the Board of Directors. Such division shall require the approval of the General Meeting of Shareholders pursuant to article 13.4 of the Articles of Association. The Non-Executive Director(s) are charged with the supervision of duties by the Executive Directors and of the general affairs and policy of the Company.

Board of Directors - Composition and division of duties

During the year 2014, the composition of the Board of Management was as follows:
A. Yurkevych: Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011; Chief Executive Officer, responsible for running the Company, implementation of strategic goals and achievement of planned financial results;

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

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

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

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

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

G.C. Logush: Non-Executive Director, appointed as of June 21, 2013 responsible for assisting in the Company's strategy development, risk assessment control and review of management performance.

Board of Directors - Terms of Reference
The Terms of Reference of the Board of Directors, which provide for certain duties, composition, procedures and decision-making of the Board of Directors, were adopted in accordance with article 13.4 of the Company's Articles of Association, the best practice provisions under chapters II (and III, where applicable) of the Code and best practice provisions No. 28 and No. 40 of the WSE Code. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and the WSE Code and can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).
The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. The Board of Directors is assisted by our corporate secretary. All members of the Board of Directors have access to the advice and services of the corporate secretary, who is charged with ensuring that the Board of Directors' procedures are followed and that the Board of Directors acts in accordance with its statutory obligations under the Articles of Association. The corporate secretary is appointed and dismissed by the Board of Directors.

Board of Directors - Issue of shares and acquisition of own shares
According to the Articles of Association (Art. 5) the Board of Directors has the authority to propose to the General Meeting of Shareholders to issue shares. Such a proposal shall contain the price and the further terms and conditions of the issue. The General Meeting of Shareholders may resolve to designate the Board of Directors, for a fixed period not exceeding five years, as the body authorized to issue shares.

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

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

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

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

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

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

The General Meeting of Shareholders of 2014 gave the authorization to the Board of Directors to issue, acquire own shares and to exclude or limit the pre-emptive rights.

Board of Directors - Representation
Executive Board Member(s) have the authority to represent the Company, including the authority to represent the Company acting individually. The Company may grant special and general powers of attorney to persons regardless of whether or not they are employed by the Company authorizing them to represent the Company and bind it vis-à-vis third parties.

Board of Directors - Conflict of interest
In the event that the Company has a conflict of interest with a Director, in the sense that the Director in private enters into an agreement with, or is party to a legal proceeding between him and the Company, the Company shall be represented by one of the (other) Executive Directors. If there are no such other Directors, the Company shall be represented by two Non-Executive Directors acting jointly. If there are no such Non-Executive Directors, the General Meeting of Shareholders shall appoint a person to that effect. Such person may be the Director in relation to whom the conflict of interest exists. In all other cases of a conflict of interest between the Company and a Director, the Company can also be represented by that Director. The General Meeting of Shareholders shall at all times be authorized to appoint one or more other persons to that effect.

Board of Directors - Appointment and profile

Members of the Board of Directors are appointed for a maximum period of four years. Starting on the day of the General Meeting of Shareholders at which they are appointed and ending on the day of the annual General Meeting of Shareholders that is held in the fourth year of their appointment. Members of the Board of Directors may immediately be reappointed. Members of the Board of Directors can be suspended or dismissed by the General Meeting of Shareholders. If the General Meeting of Shareholders has suspended a Director, the General Meeting of Shareholders shall within three months of the date on which the suspension has taken effect, resolve either to dismiss such Director, or to terminate or continue the suspension, failing which the suspension shall lapse. A resolution to continue the suspension may be adopted only once and in such event the suspension may be continued for a maximum period of three months commencing on the day the General Meeting of Shareholders has adopted the resolution to continue the suspension. If within the period of continued suspension the General Meeting of Shareholders has not resolved either to dismiss the Director concerned or to terminate the suspension, the suspension shall lapse.

The Company has a profile of its Directors, which indicates the size and composition of the Board of Directors, the activities and expertise and background of the Directors. The Profile of the Board of Directors can be viewed on the Company's website (http://www.milkiland.nl/en/O_kompanii/Board_of_directors).

Board of Directors - Committees

The Board of Directors has an audit committee (the "Audit Committee"). The Board of Directors may establish any other committee as the Board of Directors shall decide. According to best practice provision III.8.3 of the Code, only Non-Executive Directors can take place in the Audit Committee, a remuneration committee and/or selection- and appointment committee.

The Audit Committee is responsible for annually reviewing and reassessing the adequacy of the rules governing the committee as established by the Board of Directors. The Audit Committee will be charged with advising on, and monitoring the activities of the Board of Directors, with respect to inter alia, the integrity of the Company's financial statements, the Company's financing and finance related strategies and tax planning. The members of the Audit Committee of the Company are Mr. W.S. van Walt Meijer (the Chairman) and Mr. V. Rekov. The Terms of Reference of the Audit Committee can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).

Board of Directors - Miscellaneous

None of the Executive Directors holds more than two supervisory board memberships of listed companies or is a chairman of such supervisory board other than a group company. The total number of the Company's shares held by members of the Board of Directors is 24,536,088, amounting to approximately 78.52% of the issued and paid up share capital of the Company. The shareholding of the Directors has been notified with the AFM (*Stichting Autoriteit Financiële Markten*).

With respect to acquiring ownership interest of securities and transactions in securities by the Directors, the Company follows the Company's Board Securities Rules.

With respect to acquiring shares in the Company's capital by the Directors as well as other people that are involved with the Company, the Company follows the provisions of the EU Market Abuse Directive and the Company's Insider Trading Rules that reflect the provisions of this Directive.

The Company's Board Securities Rules and Insider Trading Rules can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).

Shareholders and shares

The Company's authorized capital amounts to five million Euros (EUR 5,000,000.00). The issued share capital of the Company amounts to EUR 3,125,000.00, which is divided into 31,250,000 shares with a nominal value of ten eurocent (EUR 0.10) each, all of the same class and kind. There are no shares issued with special rights or privileges attached to them. There are no restrictions imposed by the Company on the transfer of shares or certificates.

There have been no conflict of interest situations between the Company and its shareholders.

Shares and General Meeting of Shareholders

At least once a year, a General Meeting of Shareholders is held. General Meetings of Shareholders are convened by the Board of Directors.

In 2014, two General Meetings of Shareholders were held (one of which was an extraordinary general meeting). The principal decisions taken by the General Meeting of Shareholders are: adoption of the annual accounts for the financial year 2013, approval of reservation and dividend policy, discharge of the members of the Board of Directors for the financial year 2013, appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2013 and the authorization of the Board of Directors for a period of 18 months following June 22, 2014 to i) resolve to issue shares and/or to grant rights to subscribe for shares, which authorization is limited to 10% of the issued share capital of the Company, to be increased with an additional 10% in respect of mergers and acquisitions and ii) restrict or exclude pre-emptive rights in respect of such issue of shares and/or rights to subscribe for such shares.

The Extraordinary General Meeting of the Shareholders was held due to the technical error in the agenda of the Annual General Meeting connected to the re-appointment of two Non-Executive Directors: Mr. O. Rozhko and Mr. W.S. van Walt Meijer, whose appointments terminated as per the date of the Annual General Meeting and were duly prolonged by the resolution taken by the Extraordinary General Meeting.

Notices of a General Meeting of Shareholders are posted on the Company's website and are made in accordance with the relevant provisions of applicable laws and regulations. The notice convening a General Meeting of Shareholders shall be published no later than the 42nd day prior to the day of the meeting. The agenda and the explanatory notes thereto shall also be published on the Company's website at the same time. The agenda for the Annual General Meeting of Shareholders shall contain, inter alia, the adoption of the annual report, the reservation and dividend policy, a proposal to declare dividends, the proposal to grant discharge to the members of the Board of Directors from liability and, insofar applicable, the appointment of an external auditor. Shareholders, insofar entitled to make such request according to the law, can request the Board of Directors in writing to include subjects to the agenda at least 60 days before the date on which the General Meeting of Shareholders is convened.

In accordance with Dutch law, the record date for General Meetings of Shareholders shall be the 28th day before the date of the relevant General Meeting of Shareholders and holders of shares as per the record date will be entitled to vote, irrespective of any transfer of such shares between the record date and the date of the General Meeting of Shareholders.

At General Meetings of Shareholders, each ordinary share entitles the holder thereof to cast one vote.

The General Meeting of Shareholders is entitled to resolve to grant approval to decisions of the Board of Directors regarding the identity or the character of the Company, including major acquisitions and divestments.

Internal risk management and control systems

The Board of Directors is responsible for the system of internal risk management and controls of the Company and for reviewing its operational effectiveness.

The internal risk management and control systems are designed to identify significant risks and to assist the Board of Directors and the Company in managing the risks that could prevent the Company from achieving its objectives.

The Board of Directors is responsible for establishing and maintaining adequate internal risk management and control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve important business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.

Internal audit department

In the financial year 2014, the internal audit function of the Company was performed by the internal audit department and partially by licensed external auditors.

In order to provide effective internal control of the financial statements preparation the internal audit department has developed and implemented a two-level system of internal control.

The first level of control (technical) foresees the checks of the prepared financial statement using mathematical formulas which allow to reveal mismatches and discrepancies in the values. This level of control is provided by the chiefs of the internal audit unit. In more complicated cases the licensed external auditor is to be invited.

The second level of control is provided by the financial department at the level of Chief Financial Officer who performs a thorough check and afterwards presents the financial statement to the Board of Directors.

The Company recognizes the importance of internal audit and envisages to further improve its existing audit function. The main responsibilities of the head of internal audit involve the implementation of the internal control environment, global risk assessment and management and the realization of regular internal audit functions.

Compliance with the WSE Code and the Code

The Company complies with a majority of the WSE Corporate Governance Principles. It is noted that the one-tier board structure of the Company deviates from the WSE Code, which prescribes the existence and functioning of two separate governing bodies.

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

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

The Company explains why the following best practice provisions of the Code are not applied:

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

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

Best practice provision III.8.3 provides that chapter III.5 of the Code needs to be applied. In deviation from chapter III.5 of the Code, the Company has not yet established a remuneration committee nor a selection and appointment committee. The Remuneration Policy of the Company foresees the remuneration of board members for several years. The Company believes that it is in the best interest of the Company that a selection and appointment committee is not yet formed. The Board of Directors will conduct the relevant duties that are charged upon this committee on the basis of the Code.
Best practice provision III.8.4 provides that the majority of the members of the Board of Directors shall be Non-Executive Directors and that such Directors are independent within the meaning of best practice provision III.2.2 of the Code. Currently the Board of Directors of the Company is composed as such that it has a majority of Non-Executive Directors. However, only three out of five Non-Executive Directors are independent within the meaning of best practice provision III.2.2 of the Code. The Company believes however, that the current composition of the Board of Directors is such that it will provide for proper management and supervision.

Best practice provision IV.3.13: The Company currently has not yet developed an outline policy on bilateral contacts with the shareholders. The Company will develop such a policy and publish it on its website in 2015.

Report of non-executive directors

In 2014, Mr. V. Rekov, Mr. W.S. van Walt Meijer, Mr. G.C.Logush, Mr. V.Strukov and Mr. O.Rozhko proceeded to perform their duties as Non-Executive Directors of the Company.

The Non-Executive Directors are charged with supervising, monitoring and advising the Executive Directors with respect to all responsibilities of the Board of Directors. Only Mr. W.S. van Walt Meijer, Mr. G.C.Logush and Mr. V.Strukov are independent within the meaning of best practice provision III.2.2 of the Code, whereas Mr. V.Rekov and Mr. O. Rozhko cannot be considered independent in this respect.

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

There were no irregularities in the 2014 financial year that required interventions by the Non-Executive Directors.

Remuneration policy and remuneration report

The objective of the Group's remuneration policy is to provide a compensation program allowing for the attraction, retention and motivation of members of the Board of Directors who have chartered traits, skills and background to successfully lead and manage the Company.

The general policy with regard to the remuneration of members of the Board of Directors was adopted by the General Meeting of Shareholders on June 17, 2011.

Individual-specific responsibilities are taken into consideration in respect of the determination and differentiation of the remuneration of the members of the Board of Directors.

The Group's policy towards the members of the Board of Directors and Key Executives, as well as employment contracts of the members of the Board of Directors and Key Executives do not provide for any benefits in the case of dismissal or termination of such person's service, employment contract or other similar agreement. The members of the Board of Directors and Key Executives are not granted any pensions, retirement or similar benefits.

Information about the remunerations accrued to the Company's Directors in 2014 for rendered services is presented in the table below.

Name	Position in 2014	Appointed	Gross Remuneration (EUR)	Expenses reimbursement (EUR)	Total (EUR)
Oleg Rozhko	Chairman of the Board of Director	22.06.2012	50,000	0	50,000
Olga Yurkevich	Executive Director, Chief Production Officer	28.08.2007	221,573	0	221,573
Anatoliy Yurkevych	Executive Director, Chief Executive Officer	28.08.2007	304,016	0	304,016
Vyacheslav Rekov	Non-executive Director	28.08.2007	42,170	0	42,170
Willem Scato van Walt Meijer	Non-executive Director	06.12.2010	50,000	0	50,000
Vitaliy Strukov	Non-Executive Director	21.06.2013	32,300	0	32,300
George Logush	Non-Executive Director	21.06.2013	40,000	0	40,000

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments. The Company's remuneration policy in 2014 did not provide any reimbursement of Directors expenses.

REPRESENTATIONS OF THE BOARD OF DIRECTORS

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

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2014 are prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position and the result of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended December 31, 2014 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at December 31, 2014 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended December 31, 2014, including a description of the key risks that the Company is confronted with.

Representation of the Board of Directors on Appointment of an Entity Qualified to Audit Annual Financial Statements

The Board of Directors hereby represents that BDO Audit & Assurance B.V., which performed the audit of the statutory financial statements of the Company for the year ended December 31, 2014, has been appointed in accordance with the applicable laws and that this entity and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with the applicable provisions of law.

Representation of the Board of Directors Relating to the System of Internal Control

In line with best practice provision II.1.4 of the Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code (Monitoring Commissie Corporate Governance Code), the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2014, the Board of Directors assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analysis that was carried out at the Company within the framework of governance and compliance, the Board is of the opinion, after consulting with the Audit Committee, that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. There is an inherent limitation in that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty in regards to the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2015.

Board of Directors of Milkiland N.V.

Amsterdam, 30 April 2015

A. Yurkevych O. Yurkevich O. Rozhko

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents	0	10,431	13,056
Trade and other receivables	8	50,615	62,088
Inventories	9	17,779	29,763
Current biological assets	13	1,901	7,538
Current income tax assets		367	19
Other taxes receivable	10	10,541	16,781
		91,634	**129,245**
Non-current assets			
Goodwill	11	2,147	3,426
Property, plant and equipment	12	135,401	187,974
Non-current biological assets	13	2,017	4,102
Other intangible assets	12	2,286	3,335
Deferred income tax assets	30	6,366	8,405
		148,217	**207,242**
TOTAL ASSETS		**239,851**	**336,487**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	22,535	26,948
Current income tax liabilities		384	239
Other taxes payable	15	2,063	2,271
Short-term loans and borrowings	16	96,389	79,284
		121,371	**108,742**
Non-current liabilities			
Loans and borrowings	16	5,531	24,475
Deferred income tax liabilities	30	18,005	27,177
Other non-current liabilities		351	657
		23,887	**52,309**
Total liabilities		**145,258**	**161,051**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	68,502	48,752
Currency translation reserve	0	(45,845)	(18,277)
Retained earnings		17,676	88,050
		92,145	**170,337**
Non-controlling interests		2,448	5,099
Total equity		**94,593**	**175,436**
TOTAL LIABILITIES AND EQUITY		**239,851**	**336,487**

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

	Notes	2014	2013
Revenue	22	288,725	340,973
Change in fair value of biological assets	23	1,405	1,305
Cost of sales	24	(233,837)	(268,810)
Gross profit		**56,293**	**73,468**
Selling and distribution expenses	25	(23,413)	(28,843)
Administrative expenses	0	(23,675)	(31,868)
Other (expenses)/income, net	27	(9,862)	6,420
Gain on subsidiary acquisition	4	-	15
Operating (loss)/profit		**(657)**	**19,192**
Finance income	28	2,912	5,730
Finance expenses	29	(76,903)	(11,202)
(Loss)/Profit before income tax		**(74,648)**	**13,720**
Income tax	30	2,233	(2,060)
Net (loss)/profit for the year		**(72,415)**	**11,660**
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Gains on revaluation of properties		28,139	-
Tax effect on revaluation of properties		(4,741)	-
		23,398	-
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(29,639)	(11,005)
		(29,639)	**(11,005)**
Total other comprehensive loss		**(6,241)**	**(11,005)**
Total comprehensive (loss)/income		**(78,656)**	**655**
(Loss)/profit attributable to:			
Owners of the Company		(71,835)	10,835
Non-controlling interests		(580)	825
		(72,415)	**11,660**
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(76,005)	172
Non-controlling interests		(2,651)	483
		(78,656)	**655**
Earnings per share	0	**(229.87)**	**34.67**

(All amounts in euro thousands unless otherwise stated)

	Notes	2014	2013
Cash flows from operating activities:			
(Loss)/profit before income tax		**(74,648)**	**13,720**
Adjustments for:			
Depreciation and amortization	12	10,062	13,975
Loss from disposal and write off of inventories	27	1,253	16
Change in provision and write off of trade and other accounts receivable	27	1,754	(883)
Change in provision and write off of unrealized VAT	27	1,908	1,839
Loss from disposal of non-current assets	27	149	166
Loss on revaluation of property, plant and equipment	27	6,114	-
Change in fair value of biological assets	23	(1,405)	(1,305)
Operational foreign exchange results, net	27	(1,914)	(2,193)
Finance income	28	(2,912)	(5,730)
Gain realized from subsidiary acquisitions	4	-	(15)
Finance expenses	29	76,903	11,202
Write off of accounts payable	27	(10)	(185)
Operating cash flow before movements in working capital		**17,254**	**30,607**
Increase in trade and other accounts receivable		(6,836)	(11,822)
Decrease in inventories		(248)	(5,293)
Decrease/(increase) in biological assets		4,189	(1,996)
Increase in trade and other payables		4,652	12,345
Increase in other taxes receivable		(1,712)	(8,202)
Decrease/increase in other taxes payable		(208)	701
Net cash provided by operations		**17,091**	**16,340**
Income taxes paid		(2,860)	(3,019)
Interest received		2,637	1,480
Interest paid		(9,563)	(9,982)
Net cash provided by operating activities		**7,305**	**4,819**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	12	(6,275)	(20,918)
Proceeds from sale of property, plant and equipment	12	376	100
Acquisition of subsidiaries, net of cash acquired	4	-	(488)
Net cash used in investing activities		**(5,899)**	**(21,306)**
Cash flows from financing activities:			
Proceeds from borrowings	16	81,848	71,437
Repayment of borrowings	16	(81,826)	(60,648)
Dividends paid	20	(2,187)	(2,500)
Commissions paid		(41)	(109)
Acquisition of non-controlling interest	4	-	(1,416)
Net cash used in/(provided by) financing activities		**(2,206)**	**6,764**
Net decrease in cash and equivalents		**(800)**	**(9,723)**
Cash and equivalents, beginning of year	0	**13,056**	**23,850**
Effect of foreign exchange rates on cash and cash equivalents		(1,825)	(1,071)
Cash and equivalents, end of year	0	**10,431**	**13,056**

(All amounts in euro thousands unless otherwise stated)

	Notes	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
		Attributable to equity holders of the company							
Balance at 1 January 2013		**3,125**	**48,687**	**(7,441)**	**53,228**	**74,702**	**172,301**	**6,384**	**178,685**
Profit for the year		-	-	-	-	10,835	**10,835**	825	**11,660**
Other comprehensive loss, net of tax effect		-	-	(10,663)	-	-	**(10,663)**	(342)	**(11,005)**
Total comprehensive income for the year		**-**	**-**	**(10,663)**	**-**	**10,835**	**172**	**483**	**655**
Acquisition of non-controlling interests	4	-	-	(173)	256	281	**364**	(1,787)	**(1,423)**
Acquisition of subsidiaries	4	-	-	-	-	-	**-**	19	**19**
Declaration of dividends	20	-	-	-	-	(2,500)	**(2,500)**	-	**(2,500)**
Realised revaluation reserve, net of income tax	18	-	-	-	(4,732)	4,732	**-**	-	**-**
Balance at 31 December 2013		**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**	**5,099**	**175,436**
Balance at 1 January 2014		**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**	**5,099**	**175,436**
Loss for the year		-	-	-	-	(71,835)	**(71,835)**	(580)	**(72,415)**
Revaluation of PPE	18	-	-	-	23,398	-	**23,398**	-	**23,398**
Other comprehensive loss, net of tax effect		-	-	(27,568)	-	-	**(27,568)**	(2,071)	**(29,639)**
Total comprehensive loss for the year		**-**	**-**	**(27,568)**	**23,398**	**(71,835)**	**(76,005)**	**(2,651)**	**(78,656)**
Declaration of dividends	20	-	-	-	-	(2,187)	**(2,187)**	-	**(2,187)**
Realised revaluation reserve, net of income tax	18	-	-	-	(3,648)	3,648	**-**	-	**-**
Balance at 31 December 2014		**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**	**2,448**	**94,593**

Notes to the consolidated financial statements

1 The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the year ended 31 December 2014 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 24 April 2015 and are subject to adoption by the shareholders during the Annual General Meeting.

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

As at 31 December 2014 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine, in Russia and in Poland, able to process up to 1,330 thousand tons of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

As at 31 December 2014, the Group employed 6,753 people (2013: 7,965 people).

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2014 to 31 December 2014 the Company had the following direct and indirect subsidiaries:

		Effective share of ownership	
Name	**Country of incorporation**	**31 December 2014**	**31 December 2013**
MLK Finance Limited	Cyprus	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	100.0%	100.0%
Milkiland Corporation	Panama	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%
Ostrowia 10 sp. z.o.o	Poland	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	100.0%
LLC Milkiland RU	Russia	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	72.3%	72.3%
LLC Agrosvit	Ukraine	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%
PrJSC Transportnyk	Ukraine	70.3%	70.3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%
PJSC Iskra	Ukraine	70.8%	70.8%
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%
ALLC Nadiya	Ukraine	100.0%	100.0%
LLC Uspih-Mena (former LLC Feskivske)	Ukraine	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	97.5%	97.0%
LLC Agro-Mena	Ukraine	100%	-
LLC Iskra-Sloboda	Ukraine	100%	-

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

During the year ended 31 December 2014, the Group finalized registration of new agricultural subsidiaries LLC Agro-Mena and LLC Iskra-Sloboda in Ukraine.

Going concern assumptions. The Group conducts significant part of its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade. In 2014, Ukrainian political and economic situation deteriorated significantly. The annexation of the Autonomous Republic of Crimea by the Russian Federation, full-fledged armed confrontations in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings. From 1 January 2014 and up to 31 December 2014, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 97% calculated based on the National Bank of Ukraine exchange rate of UAH to US Dollar.The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements (including repayment of dividends), and also mandated obligatory conversion of foreign currency proceeds into UAH. The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate. Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions. Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

2 Summary of significant accounting policies

Basis of presentation. These consolidated financial statements of the Group have been prepared in accordance with the requirements of International Financial Reporting Standards (further - IFRS) as endorsed by the European Union and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

These consolidated financial statements of the Group have been prepared using the historical cost convention, as modified by the revaluation of property, plant and equipment, and certain financial instruments measured in accordance with the requirements of IAS 39 *Financial instruments: recognition and measurement*.

(a) New standards, amendments to standards and interpretations that are mandatory for the first time for the financial year ended 31 December 2014 and were adopted by the Group.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard has no material impact on the Group.

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The standard has no material impact on the Group.

IFRS 12, ‘Disclosures of interests in other entities’ includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard has no material impact on the Group.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2015 and which the Group has not early adopted:

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9’s full impact.

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Consolidated financial statements. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the net assets of the acquired company at each exchange transaction represents goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

All intergroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.
Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Government grants. Government grants received on capital expenditure are included in other non-current liabilities and amortised during the useful life of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group. Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive income or amortised during the useful life of the asset purchased.

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

Valuation of property and equipment is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Fair value is based on valuations by external independent appraisal agency.

Depreciation is charged to the consolidated statement of comprehensive income on a straight line basis to allocate costs of individual assets to their residual value over their estimated useful lives of the assets:

	Useful life, years
Buildings, constructions	20-50
Plant and equipment	5-30
Other	1-15

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

Any revaluation surplus is credited to the asset revaluation reserve included in the net assets attributable to participants in the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation discount is recognised in profit or loss, except that a discount directly compensates a previous surplus of the carrying amount of these assets during a previous period and refers to the revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revaluation carrying amount of the asset and depreciation based on the asset original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated with immediate decrease of the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on retirement of the asset (calculated as the difference between the net disposals proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets. Intangible assets acquired separately are measured on initial recognition at an original cost. The original cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the reporting year in which the expenditure is incurred.

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

Intangible assets with definite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a definite useful life are reviewed at least at each reporting year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with definite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Software is amortised under the straight-line method over its useful life comprising 2-4 years.
Trade Marks of purchased subsidiaries are amortised under the straight-line method over its useful life comprising 10 years.
Land lease rights of purchased subsidiaries are amortised under the straight-line method over its useful life comprising 5-7 years.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is included in Intangible assets in the statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Impairment of non-financial assets. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the Statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to amortize the asset's revised carrying amount, less any residual value, on regular basis over its remaining useful life.

Biological assets. The Group classifies livestock (primarily cattle) and unharvested crops as biological assets. Biological assets are carried at their fair value less estimated costs to sell, except when the fair value cannot be measured reliably. If fair value cannot be measured reliably, biological assets are carried at cost less accumulated depreciation and accumulated impairment losses. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Management’s estimation of the useful lives of livestock amounts to 8 years.

Gain (loss) from changes in fair value of biological assets included in the consolidated statement of comprehensive income represents the net difference between the excess of the fair value less estimated costs to sell of biological assets over their total cost at the end of reporting period, and the corresponding amount at the beginning of the reporting period.

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

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

Inventory is accounted for at FIFO method.

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

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

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

Financial instruments. Financial instruments reported in the Group’s statement of financial position include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus transaction costs, except financial instruments at fair value through profit and loss. Financial instruments are stated in the statement of financial position at the moment of bargain in respect of an appropriate financial instrument. Valuation order of financial instrument will be considered below.

Financial instrument or some part of financial instrument is written off in the financial statements when the Group loses its rights or repays liabilities related to this financial instrument. When financial asset is written off, the difference between received and accrued compensation and carrying amount is recognised in the statement of comprehensive income. When a financial liability is written off, the difference between paid or accrued compensation and a current carrying amount is recognised in the statement of comprehensive income.

Recognition of financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

In compliance with IAS 39 financial assets are divided into 4 categories as follows:

- financial assets at fair value through profit and loss;
- loans and accounts receivable;
- investments held to maturity;
- financial assets available for sale.

When a financial asset or financial liability is recognised initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. When the Group becomes a contractual party, it determines embedded derivatives in the contract, if any. Embedded derivatives are separated from the host contract that is not assessed at fair value through profit or loss in case the economic character and risks of embedded derivatives materially differ from similar quotients of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed or appropriate, revaluates this designation at each financial year-end.

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

Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognised in profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are reflected at amortized cost using the effective interest method after their initial evaluation. Amortized cost is calculated taking into account all discounts or bonuses that arose at acquisition and includes commissions being an integral part of the efficient interest rate as well as transaction costs. Gains and expenses are recognised in the statement of comprehensive income when assets are derecognised or impaired, as well as through the amortization process.

After initial recognition, extended loans are measured at fair value of the funds granted that is determined using the effective market rate for such instruments, if they materially differ from the interest rate on such loan granted. In future loans are measured at amortized cost using the effective interest rate method. Difference between the fair value of the funds granted and loan reimbursement amount is reported as interest receivable during the whole period of the loan. Amortized cost is calculated taking into account all transaction expenses and discounts or bonuses that arose at repayment.

Loans that mature more than 12 months after the consolidated statement of financial position date are included into non-current assets.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

<u>Investments held-to-maturity</u>

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

<u>Fair value</u>

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

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

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

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

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

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

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

Fair value of biological assets

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

Fair value of agricultural produce

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

Non-derivative financial liabilities

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

As at 31 December 2014 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognised at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Interest expense in this context includes initial transaction costs and discount payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets reported at amortized cost

If there is objective evidence that an impairment loss has been incurred in loans and accounts receivable that are reported at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at initial effective interest rate for such financial asset (i.e. at the effective interest rate calculated at initial recognition). The carrying amount of the asset is reduced directly or using the reserve. The loss amount is recognised in the statement of comprehensive income.

The Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset into a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is recovered. Any subsequent loss recovery is recognised in the statement of comprehensive income in the amount that the carrying amount of an asset should not exceed its amortized cost at the recovery date.

Provision for impairment loss is created in receivables in case there is objective evidence (e.g. a possibility of the debtor's insolvency or other financial difficulties) that the Group might not gain all amounts due to the delivery terms. Carrying amount of receivables is than reduced through the allowance account. Impaired debts are derecognised as soon as they are considered to be bad.

<u>Financial investments available for sale</u>

Impairment losses on available for sale investments are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Interest-bearing loans and borrowings. All loans and borrowings are initially recognised at the fair value of the cash amount received less loan related costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at an amortized cost using the effective interest rate method. Gains and losses are recognised in net profit or loss when liabilities retired, as well as through the amortization process.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Leases. The Group leases certain property, plant and equipment. Leases of property, plant, and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

Contingencies. Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all provisions to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Employee Benefits. Wages, salaries, contributions to the state pension and social insurance funds, paid annual and sick leave, bonuses and non-monetary benefits are accrued in the period when the associated services are rendered by the employees of the Company.

Revenue and expense recognition. Revenue is recognised when the title of the product passes to the customer and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.
The cost of products sold is recognised at the same time as the corresponding revenue.

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

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

Income taxes

<u>Current tax</u>

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

<u>Deferred tax</u>

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

Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent company and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except for:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the-transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognised deferred income tax assets are reassessed at each consolidated statement of financial position date and recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be realized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or (substantively enacted) at the consolidated statement of financial position date. Income tax relating to items recognised directly in net assets attributable to participants is recognised in the net assets attributable to participants and not in the statement of comprehensive income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and they relate to income taxes imposed by the same taxation authority on the same entity.

Loans provided. Loans provided are accounted for at an amortized cost using the effective interest rate method.

Trade and other accounts receivable. Trade and other receivables are stated at an amortised cost using the effective interest rate method. Provisions in respect to non-recoverable amounts estimated as difference between carrying amount of assets and current value of future cash flows discounted using the effective interest rate calculated at initial recognition, are stated in the statement of comprehensive income, if any impairment evidences of assets are available.

Cash and cash equivalents. Cash and cash equivalents include cash in banks and cash desks, bank deposits and short term investments with maturity up to three months that can be easily converted to respective cash funds and have insignificant risk of their cost change.

Foreign currency

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

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

Non-monetary assets and liabilities carried at historical cost are retranslated at the rates prevailing at the dates of the transactions. Non-monetary assets and liabilities carried at fair value are retranslated at the rates prevailing at the date when the fair values were determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for differences arising on the retranslation of property revaluation under IAS 16 which are recognised in other comprehensive income.

Foreign operations
The financial statements of subsidiaries and associates are prepared in their functional currencies, which are determined based on the primary economic environment in which they operate.
Upon consolidation, the assets and liabilities of foreign operations are translated to euro at exchange rates at the statement of financial position date. The income and expenses of foreign operations are

(All amounts in euro thousands unless otherwise stated)

translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the statement of comprehensive income.

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

	USD	UAH	RUR	PLN
Average for year ended 31 December 2014	1.3286	15.7276	50.8150	4.1852
As at 31 December 2014	1.2141	19.1446	68.3427	4.2623
Average for year ended 31 December 2013	1.3280	10.6152	42.3129	4.1975
As at 31 December 2013	1.3791	11.0231	44.9699	4.1472

Value added tax (VAT). VAT during sale should be paid to the tax authorities as payments from customers are received. VAT paid during acquisition of goods and services is to be deducted to VAT received during sale, when payment is made for purchased goods and services. Tax authorities allow offsetting VAT. VAT in respect of acquisitions and sales, when settlement is completed at the statement of financial position date (deferred VAT) is stated in the statement of financial position by separate amounts as current assets or liabilities. If the provision was formed to doubtful receivables, this provision is reported in full scope including VAT. Deferred liability on VAT is still being recognised in the financial accounting until receivables are repaid or written off in order provided by the Ukrainian financial accounting rules. Refer to the note 10 for the disclosure of VAT receivable.

Dividend distribution. Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders on general meeting. Amount of the Group's retained earnings that under the current legislation can be transferred to allocation between shareholders, is calculated on the basis of respective financial statements of separate entities of the Group prepared under NAS. These amounts might differ significantly from those calculated under IFRS.

3 Significant accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the statement of financial position date. Actual results might differ from the current estimations. The estimations are periodically reviewed. Should 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.

(All amounts in euro thousands unless otherwise stated)

The estimations including the applied methodology may have significant effect on the fair value and impairment amount of property, plant and equipment. Additional information is disclosed in notes 11 and 12.

Biological assets. Due to the absence of an active market, the fair value of biological assets is estimated by present valuing the net cash flows, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date. Additional information is disclosed in note 13.

Provision for doubtful accounts receivable. Provision for doubtful debts is charged based on factual data about accounts receivable payment and the solvency analysis of the most significant debtors. In case of worsening the clients' financial position, a factual losses volume may exceed an estimated one. Additional information is disclosed in note 8.

Legal actions. The Group's management applies significant judgments during the estimation and recognition of provisions and risks of contingent liabilities associated with existing legal actions and other unsettled claims that should be settled by way of negotiations, mediation, arbitration or state interference as well as other contingent liabilities. The management's judgment is essential during the possibility of a claim settling as regards the Group or material obligations and during the determination of a possible amount of final settlement. Due to the uncertainty inherent to the estimation process, actual expenses may differ from the initial estimation of provision. These previous estimations may vary as new information becomes available, mainly, from the Group's specialists, if any, or from outside consultants, such as actuaries or lawyers. A review of these estimations may have a substantial impact on future operating results. Additional information is disclosed in note 0.

4 Business combinations

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

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

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

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

(All amounts in euro thousands unless otherwise stated)

Acquisitions of subsidiaries. In 2013 the Group focused on the development of raw milk supply system and acquired 97.5% shares in JSC Sosnitsky Rajagrohim. This company is expected to contribute to the development of the stable and cost-efficient supply of raw milk. The management believes that the Group will benefit from this supply base becoming less dependent on the price fluctuations of the main raw materials needed for production.

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

The excess of JSC Sosnitsky Rajagrohim net assets acquired over the consideration paid in the amount of EUR 15 thousand is recognised in the consolidated statement of comprehensive Income as gain on subsidiary acquisition. This gain arises because the fair value of the acquired nonmonetary assets exceeds the amount paid for those assets. This situation is due to the significant risks involved in agricultural business in Ukraine, the lack of financial resources in the acquired companies which prevents them from efficient use of their assets, and a lack of interested buyers.

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

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

5 Segment information

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

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

Ukraine, Russian and Poland segments are further segregated in the following main reportable segments:

- *Cheese&butter*. This segment is involved in production and distribution of cheese and butter. This segment generated 36% (2013: 46%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 47% (2013: 42%) of Group's revenue;
- *Ingredients* include production and distribution of dry milk, agricultural products, and other products, which - although contributing a relatively small amount of revenue to the Group, are monitored by the Board of Directors as well.

(All amounts in euro thousands unless otherwise stated)

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

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

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

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

	2014				2013			
	Russia	Ukraine	Poland	Total	Russia	Ukraine	Poland	Total
Total segment revenue	151,411	136,501	26,716	**314,628**	144,935	209,872	15,144	**369,951**
Inter-segment revenue	(430)	(18,358)	(7,115)	**(25,903)**	(3,243)	(24,939)	(796)	**(28,978)**
Revenue from external customers	150,981	118,143	19,601	**288,725**	141,692	184,933	14,348	**340,973**
EBITDA	**9,198**	**11,981**	**(1,674)**	**19,505**	**6,680**	**31,724**	**(2,255)**	**36,149**
EBITDA margin	6%	10%	-9%	**7%**	5%	17%	-16%	**11%**
Depreciation and amortisation	2,082	5,905	2,075	**10,062**	3,327	8,951	1,697	**13,975**

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

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

	2014				2013			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	129,138	137,026	48,464	**314,628**	181,184	144,449	44,318	**369,951**
Inter-segment revenue	(24,028)	-	(1,875)	**(25,903)**	(24,530)	-	(4,448)	**(28,978)**
Revenue from external customers	105,110	137,026	46,589	**288,725**	156,654	144,449	39,870	**340,973**
EBITDA	**4,811**	**9,857**	**4,837**	**19,505**	**18,901**	**12,241**	**5,007**	**36,149**
EBITDA margin	5%	7%	10%	**7%**	12%	8%	13%	**11%**
Depreciation and amortisation	3,253	2,794	4,015	**10,062**	5,565	6,134	2,276	**13,975**

(All amounts in euro thousands unless otherwise stated)

A reconciliation of EBITDA to profit before tax:

	2014	2013
EBITDA	19,505	36,149
Other segments EBITDA	(2,399)	(2,712)
Total segments	**17,106**	**33,437**
Depreciation and amortisation	(10,062)	(13,975)
Non-recurring expenses	(1,438)	(117)
Loss from disposal and impairment of non-current assets	(6,263)	(168)
Finance expenses	(76,903)	(11,202)
Finance income	2,912	5,730
Gain on subsidiary acquisition	-	15
Loss/(profit) before tax	**(74,648)**	**13,720**

6 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 (revised 2003) "Related Party Disclosures". During the reporting period the company had related party transactions with ultimate shareholder, key management and companies under common control.

Group's transactions with its related parties for the years ended 31 December were as follows:

Entities under common control:	2014	2013
Sales revenue	5,364	15,200
Finance income/(expenses), net	1,093	3,109

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

Entities under common control:	2014	2013
Trade accounts receivable	5,708	1,645
Other financial assets	17,733	17,144
Other accounts receivable	261	160

During 2013, the Group extended prepayments to related parties for farming equipment in amount EUR 14,035 thousand which were subsequently cancelled due to the inability of parties to fulfill their obligations in due manner and classified as other financial assets (note 8).

Key management compensation

Key management includes Board of Directors. The short-term employee benefits paid or payable to key management for employee services is EUR 730 thousand (2013: EUR 970 thousand).

7 Cash and cash equivalents

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

	31 December 2014	31 December 2013
Short term deposits	9,000	6,880
Cash in bank and cash on hand	1,431	6,176
Total cash and cash equivalents	**10,431**	**13,056**

At 31 December 2014 bank borrowings are secured on short-term deposits the value of EUR 104 thousand.

An analysis of the Group's cash and cash equivalents by currency is provided in note 0.

8 Trade and other accounts receivable

	31 December 2014	31 December 2013
Trade accounts receivable	24,163	30,358
Other financial assets	17,910	17,847
Allowance for doubtful debts	(2,439)	(1,086)
Total financial assets within trade and other receivables	**39,634**	**47,119**
Advances issued	9,097	12,684
Other receivables	2,507	3,900
Allowance for doubtful debts	(623)	(1,615)
Total trade and other accounts receivable	**50,615**	**62,088**

As at 31 December 2014 trade receivables of EUR 9,426 (2013: EUR 10,525 thousand) were past due and individually determined to be impaired in the amount of EUR 2,439 thousand (2013: EUR 1,086 thousand). Based on historic information, that includes past due period and estimated recoverability value, the Group creates the allowance for doubtful debts against trade receivables past due.

The other financial assets include amounts due from related parties. As at 31 December 2014 the amount of EUR 17,733 thousand (2013: EUR 17,144 thousand), consisting of EUR 15,104 thousand nominal and 2,629 EUR thousand of interest and penalties (2013: EUR 14,035 thousand and EUR 3,109 thousand respectively), relates to prepayments on farming equipment. The receivables on related parties have arisen due to the cancellation of the fore mentioned farming equipment for which these related parties were commissioned. Refer to note 6 for further elaboration.

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2014		31 December 2013	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Customers with no history of default	14,737	17,910	19,833	17,847
Total current and not impaired	**14,737**	**17,910**	**19,833**	**17,847**
Individually determined to be impaired				
- less than 30 days overdue	3,267	-	6,906	-
- 30 to 60 days overdue	840	-	1,012	-
- 60 to 90 days overdue	1,534	-	827	-
- 90 to 360 days overdue	891	-	1,016	-
- over 360 days overdue	2,894	-	764	-
Total individually determined to be impaired	**9,426**	-	**10,525**	-
Less impairment provision	(2,439)	-	(1,086)	-
Total	**21,724**	**17,910**	**29,272**	**17,847**

Management have assessed the credit quality of clients which whom the Group have outstanding balances and have come to the conclusion the credit quality is mostly depended on the current economic and political crisis. In cases where credit quality is poor management have made a provision.

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

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

	2014	2013
Balance 1 January	**1,086**	**2,757**
Provided by during the year	1,928	-
Unused amount reversed	-	(1,499)
Receivable written off during the year as uncollectible	(246)	(37)
Exchange difference	(329)	(135)
Balance 31 December	**2,439**	**1,086**

The movement on the provision for impaired receivables has been included in other expenses, net line in the consolidated statement of comprehensive income.
Other classes of financial assets included within trade and other receivables do not contain impaired assets.

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 0.

The Group does not hold any collateral as security.

(All amounts in euro thousands unless otherwise stated)

9 Inventories

	31 December 2014	31 December 2013
Raw and other materials	8,296	12,267
Finished goods and work in progress	8,880	15,604
Agriculture produce	603	1,892
Total inventories	**17,779**	**29,763**

At 31 December 2014 and 31 December 2013 bank borrowings are secured on inventories the value of EUR 5,987 thousand (2013: EUR 16,953 thousand) (note16).

Agriculture produce as at 31 December 2014 include a gain from revaluation of maize, wheat and barley at amount EUR 82 thousand (2013: EUR 595 thousand).

As at 31 December 2014 inventories are stated net of provision for obsolescence at the amount of EUR 543 thousand (2013: EUR 553 thousand).

10 Other taxes receivable

	31 December 2014	31 December 2013
VAT recoverable	10,429	16,428
Payroll related taxes	102	117
Other prepaid taxes	10	236
Total other taxes receivable	**10,541**	**16,781**

VAT receivable as at 31 December 2014 is shown net of provision at the amount of EUR 667 thousand (31 December 2013: EUR 1,736 thousand). The provision for VAT is created for part of VAT balances due to complexity of reimbursement of VAT in Ukraine and is estimated at 25% (2013: 25%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

11 Goodwill

	2014	2013
Balance at 1 January	3,426	3,485
Foreign currency translation	(1,279)	(59)
Balance at 31 December	**2,147**	**3,426**

Goodwill is initially recognised as an asset during the primary evaluation. As the goodwill relates to foreign subsidiaries, it is translated each year as part of the translation of the foreign operation.

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Milk production operations – represented by Ostankino Dairy Combine Company located in Russia.
- Agricultural operations – represented by four agricultural companies located in Ukraine that were purchased by the Group during the years ended 31 December 2012 and 2013 (note 4) and subsequently reorganized to LLC Uspih-Mena in 2013 (note 1).

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2014	31 December 2013
Milk production operations	1,391	2,114
Agricultural operations	756	1,312
	2,147	**3,426**

Impairment test for goodwill

Impairment testing of goodwill is performed annually.

The recoverable amounts of the cash-generating units are based on value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2017.

Management determined budget revenues based on past performance and its expectation of market development. Discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Management expectations and other input to the calculation such as discount rate, market size and market shares reflect the current economic climate and market developments relevant to the segments.

The key assumptions used for the value in use calculations for Ostankino Dairy Combine are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan.
- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.
- Change in key assumptions used for calculations were changed since prior year due to the management estimation of further development of diary market in Russian federation.

	2014	2013
Pre-tax discount rate	20%-24%	17%
Revenue growth rate for the five-year period	4%-7%	7%
EBITDA growth rate for the five-year period	4%-7%	8%-13%
Revenue growth rate after the five-year period	0%	0%

The key assumptions used for the value in use calculations for agricultural are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan.
- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

	2014	2013
Pre-tax discount rate	20%	20%
Revenue growth rate for the five-year period	7%	7%
EBITDA growth rate for the five-year period	7%	7%
Revenue growth rate after the five-year period	0%	0%

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

The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units and accordingly no impairment charge has been recorded in 2014 and in 2013. In addition to the impairment test, the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes in a key assumption.

(All amounts in euro thousands unless otherwise stated)

12 Property, plant and equipment and intangible assets

	Land and Buildings	Plant and equipment	Other assets	Construc-tions in progress	Intangible assets	Total
At 1 January 2013						
Revalued cost	119,052	50,323	13,032	29,676	4,482	216,565
Accumulated depreciation and amortisation	(6,253)	(13,043)	(3,658)	-	(658)	(23,612)
Net book value	**112,799**	**37,280**	**9,374**	**29,676**	**3,824**	**192,953**
Year ended 31 December 2013						
Opening net book value	112,799	37,280	9,374	29,676	3,824	192,953
Additions	12,570	8,368	1,433	174	227	22,772
Additions from acquisition	58	-	-	-	437	495
Depreciation and amortisation	(4,401)	(7,263)	(1,724)	-	(587)	(13,975)
Transfers	7,702	1,450	611	(9,347)	(416)	-
Disposals	(70)	(283)	(285)	-	(30)	(668)
Exchange rate difference	(6,615)	(1,730)	(368)	(1,435)	(120)	(10,268)
Closing net book value	**122,043**	**37,822**	**9,041**	**19,068**	**3,335**	**191,309**
At 31 December 2013	-	-	-	-	-	
Revalued cost	132,114	55,770	13,826	19,068	4,540	225,318
Accumulated depreciation and amortisation	(10,071)	(17,948)	(4,785)	-	(1,205)	(34,009)
Net book value	**122,043**	**37,822**	**9,041**	**19,068**	**3,335**	**191,309**
Year ended 31 December 2014						
Opening net book value	122,043	37,822	9,041	19,068	3,335	191,309
Additions	2,984	1,746	931	987	46	6,694
Depreciation and amortisation	(3,549)	(4,988)	(1,252)	-	(273)	(10,062)
Transfers	976	299	79	(1,356)	2	-
Revaluation	14,260	5,027	1,764	-	-	21,051
Disposals	(313)	(252)	(101)	(17)	(26)	(709)
Exchange rate difference	(46,218)	(11,247)	(3,851)	(8,481)	(798)	(70,595)
Closing net book value	**90,183**	**28,407**	**6,610**	**10,201**	**2,286**	**137,687**
At 31 December 2014						
Revalued cost	90,982	31,055	6,755	10,201	3,486	142,479
Accumulated depreciation and amortisation	(799)	(2,648)	(145)	-	(1,200)	(4,792)
Net book value	**90,183**	**28,407**	**6,610**	**10,201**	**2,286**	**137,687**

At 31 December 2014 bank borrowings are secured on properties for the value of EUR 73,312 thousand (2013: EUR 144,771 thousand) (note16).

At 31 December 2014 bank borrowings are secured on Intangible assets the value of EUR 830.

At 31 December 2014 the gross carrying value of fully depreciated property, plant and equipment is EUR 3,668 thousand (2013: EUR 6,893 thousand).

(All amounts in euro thousands unless otherwise stated)

At 31 December 2014 EUR 672 thousand (2013: EUR 1,314 thousand) of cost less accumulated amortization of land lease rights of purchased agricultural companies is included into intangible assets group. Land lease rights with remaining useful life of 4-7 years were recognised as a result of business combination (note 4).

At 31 December 2014 EUR 1,485 thousand (2013: EUR 1,723 thousand) of cost less accumulated amortization of Trade Marks owned by Ostrowia sp.z.o.o. were included into intangible assets group. Trade Marks with useful life of 10 years were recognised as a result of business combination (note 4).

The Group engaged independent appraisers to determine the fair value of land and buildings, plant and equipment and other assets of Ukrainian and Russian segments. Fair value as at 31 December 2014 was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards. Valuation of property, plant and equipment is within level 3 of the fair value hierarchy.

As a result of the revaluation, a revaluation surplus net of applicable deferred income taxes EUR 23,398 thousand was credited to other comprehensive income and is shown in Revaluation reserve in shareholders equity (note 18). The revaluation loss of EUR 6,488 thousand was debited to Other (expenses)/income (note 27).

Should there be no revaluation the net book value of property, plant and equipment and intangible assets as at 31 December 2014 would be:

	Land and buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
31 December 2014	75,766	23,051	4,845	10,201	2,286	**116,149**

13 Biological assets

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

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

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

To estimate the fair value of biological assets, a valuation, which conforms to International Valuation Standards, was performed by the Group, fair value is estimated as the present value of the net cash flows expected to be generated from biological assets discounted at a current market discount rate. The valuation of the biological assets is within level 3 of the fair value hierarchy.

Fair values of biological assets were based on the following key assumptions:

- crops' revenue is projected based on the expected volume of harvested barley and wheat.
- dairy cattle revenue is projected based on the expected milk produced during their productive life after the reporting date and expected volume of meat at the date of slaughter;
- the average productive life of a cow is determined based on internal statistical information prices for barley, wheat, milk and meat are obtained from market resources as at the end of the reporting period;
- production and costs to sell are projected based on actual operating costs;
- a pre-tax discount rate of 19.60% is applied in determining fair value of biological assets. The discount rate is based on the average cost of capital in Ukraine effective at the reporting date.

(All amounts in euro thousands unless otherwise stated)

The key assumptions represent management's assessment of future trends in agriculture and cattle farming business and are based on both external and internal sources of data.

As at 31 December biological assets comprise the following groups:

	31 December 2014		31 December 2013	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	4,633	1,797	4,253	4,211
Other	-	9	-	863
	4,633	**1,806**	**4,253**	**5,074**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	-	-	3,929	1,018
Maize	-	-	1,372	768
Other	-	95	-	678
	-	**95**	**5,301**	**2,464**
Total current biological assets		**1,901**		**7,538**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	2,718	2,011	3,286	4,102
Other livestock		6		-
	2,718	**2,017**	**3,286**	**4,102**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2014 and 2013:

	2014	**2013**
1 % increase in discount rate	24	(28)
1 % decrease in discount rate	14	28
10 % increase in price for milk	549	618
10 % decrease in price for milk	(881)	(1,402)
10 % increase in price for meat	169	156
10 % decrease in price for meat	(128)	(144)
10 % increase in prices for crops	-	218
10 % decrease in prices for crops	-	(198)

(All amounts in euro thousands unless otherwise stated)

The following represents the changes during the year ended 31 December 2014 and 31 December 2013 in the carrying amounts of non-current and current biological assets:

	Current biological assets of animal breading	Current biological assets of plant growing	Non-current biological assets
As at 1 January 2013	**3,940**	**1,480**	**3,296**
Additions from acquisitions of subsidiaries	-	138	-
Investments into future crops	-	1,263	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	990	1,063	950
Transfers	144	-	(144)
Decrease due to harvest	-	(1,480)	-
As at 31 December 2013	**5,074**	**2,464**	**4,102**
Purchases	-	-	38
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	470	31	605
Investments into future crops	-	116	-
Transfers	1,063	-	(1,063)
Decrease due to harvest	-	(1,758)	-
Disposals	(2,891)	-	-
Currency translation difference	(1,910)	(758)	(1,665)
As at 31 December 2014	**1,806**	**95**	**2,017**

Risk management in agricultural business

The Group is exposed to a number of risks related to its biological assets:

Price fluctuation risk

The Group is exposed to financial risks arising from changes in wheat, barley and milk prices. The Group does not anticipate that prices for its main products will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in prices. Management reviews its outlook for prices regularly in considering the need for active financial risk management.

Climate and other risks

Biological assets are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular field and farm inspections and industry pest and disease surveys.

(All amounts in euro thousands unless otherwise stated)

14 Trade and other payables

	31 December 2014	31 December 2013
Trade payables	16,456	20,930
Accounts payable for fixed assets	120	347
Interest payable	1,010	163
Other financial payables	158	86
Total financial liabilities within trade and other payable	**17,744**	**21,526**
Wages and salaries payable	1,980	2,121
Advances received	668	482
Other accounts payable	588	434
Accruals for employees' unused vacations	1,555	2,385
Total trade and other payables	**22,535**	**26,948**

Financial liabilities are normally settled within 60-days period.

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

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 0.

15 Other taxes payable

	31 December 2014	31 December 2013
VAT payable	1,011	881
Payroll related taxes	922	1,217
Other taxes payable	130	173
Total other taxes payable	**2,063**	**2,271**

(All amounts in euro thousands unless otherwise stated)

16 Interest bearing loans and borrowings

	31 December 2014	31 December 2013
Current		
Interest bearing loans due to banks	95,206	76,561
Loans from non-financial institutions	14	-
Bank overdrafts	469	2,033
Finance leases	700	690
Total current borrowings	**96,389**	**79,284**
Non-current		
Interest bearing loans due to banks	4,028	22,437
Finance leases	1,503	2,038
Total non-current borrowings	**5,531**	**24,475**
Total borrowings	**101,920**	**103,759**

At 31 December 2014 bank loans in the amount of EUR 20,061 thousand (2013: EUR 34,061 thousand) are classified as short-term. They relate to the renewable long-term credit lines with maturity dates in 2016. According to the loan agreements' terms the Company must repay the outstanding principal amount of the loan annually. The next day after repayment the Company is able to take the whole amount of credit limit again without any other restrictions.

As at 31 December 2014 the Group has not met requirement in respect of covenants to syndicate loan stated in Note 32. Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval. The total sum of the Group's indebtedness to syndicate as at 31 December 2014 stood at USD EUR 48,250 thousand, including an overdue amount of EUR 20,361 thousand is classified as current interest bearing loans due to banks (note 16).

As at 31 December 2014 the Group has overdue amount of EUR 1,980 thousand to PJSC "Bank Forum" due to the procedure for liquidation of PJSC "Bank Forum" and unwillingness of the Temporary Administration to settle the debt out-of-court (note 0).

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at 31 December are as follows:

	2014	2013
6 months or less	94,798	68,076
6-12 months	7,081	35,683
1-3 years	41	-
	101,920	**103,759**

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

	31 December 2014					31 December 2013				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	72,900	2,210	17,813	3,466	**96,389**	49,970	4,455	21,459	3,400	**79,284**
Average interest rate, %	11.11	22.98	9.91	4.50	**10.92**	10.27	17.87	9.90	4.46	**10.35**
1-5 years										
Outstanding balance, thousand EUR	4,028	4	30	1,469	**5,531**	22,437	12	-	2,026	**24,475**
Average interest rate, %	8.25	24.00	2.56	5.61	**7.53**	11.00	24.00	-	5.61	**10.56**

At 31 December 2014 bank borrowings are secured on properties, plant and equipment (note 12), inventories (note 9).

At 31 December 2014, due to the difficult economic and political situation in Ukraine (note 1), the Group has overdue amount of EUR 20,361 thousand in respect of Syndicate of international Banks loan facilities and EUR 269 thousand in respect of Credit Agricole Bank loan facilities. Management is in process of negotiation of new repayment terms for the above mentioned and other loans (note 36).

17 Share capital

Share capital as at 31 December is as follows:

	31 December 2014		31 December 2013	
	Number	EUR 000	Number	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At beginning of the year	31,250,000	3,125	31,250,000	3,125
At end of the year	**31,250,000**	**3,125**	**31,250,000**	**3,125**

18 Revaluation reserve

The revaluation reserve arises on the revaluation of properties, plant and equipment. When revalued properties, plant and equipment are depreciated or sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings. During 2014 EUR 3,648 thousand was transferred to retained earnings (2013: EUR 4,732 thousand).

Change of Revaluation reserve as a result of the revaluation of property, plant and equipment in 2014 was EUR 15,424 thousand for Ukrainian companies and EUR 7,974 thousand for Russian companies.

(All amounts in euro thousands unless otherwise stated)

19 Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group`s foreign operations from their functional currencies to Group`s presentation currency are recognised directly in other comprehensive income and accumulated in the currency translation reserve.

20 Dividends per share

The dividends paid in 2014 were EUR 2,187 thousand (EUR 0.07 per ordinary share). The dividends paid in 2013 were EUR 2,500 thousand (EUR 0.08 per ordinary share).

21 Government grants

Agricultural companies of Milkiland Ukraine Group receive state subsidies in the form of VAT paid for their agriculture products by customers. This support is provided to agricultural producers according to the Tax Code. The grants at the amount of EUR 63 thousand the Group obtained in 2014 (2013: EUR 5,634 thousand) were recognised as an income.

Ukrainian dairy producers, including the Group's milk processing facilities, are obliged to use the VAT that they charge on their dairy products to pay subsidies to raw milk producers. In 2014 under this system 50% of the VAT charged by the dairy processors, should be used to pay subsidies to dairy farmers (2013: 60%). The remaining 50% should be paid to a special account of the state budget (2013: 40%). The procedure of its utilisation is settled by the Ukrainian Government for each calendar year.

During 2009 – 2011 the Group received subsidies from the Department of Food Supply of Moscow as a partial compensation for technical upgrade of PPE and opening of a new job positions. The Group recognised this sum as deferred income and calculated a respective amortisation in 2014 of EUR 66 thousand (2013: EUR 96 thousand) as deduction of other expenses. Deferred income is included in other non-current liabilities.

The movement in deferred income during the year was as follows:	**2014**	**2013**
Balance at the beginning of the year	233	362
Amortisation of government grant	(66)	(96)
Foreign exchange difference	(62)	(33)
Balance at the end of the year	**105**	**233**

22 Revenue

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

	2014	**2013**
Cheese & Butter	105,110	156,654
Whole-milk products	137,026	144,449
Ingredients	46,589	39,870
Total revenue	**288,725**	**340,973**

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

	2014	**2013**
Russia	165,645	211,869
Ukraine	85,895	106,010
Poland	19,601	14,349
Other	17,584	8,745
Total revenue	**288,725**	**340,973**

(All amounts in euro thousands unless otherwise stated)

23 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 1,405 thousand (2013: EUR 1,305 thousand) represents the revaluation of cattle and crops predominantly maize and wheat, at fair value less costs to sell.

24 Cost of sales

	2014	2013
Raw and other materials	174,317	197,571
Wages and salaries	11,742	16,540
Depreciation	8,167	11,150
Transportation costs	6,996	9,962
Gas	7,727	10,100
Electricity	5,542	7,437
Social insurance contributions	3,854	5,592
Repairs of property, plant and equipment	3,066	3,661
Water	811	1,066
Other	5,815	8,805
Changes in finished goods and work in progress	5,800	(3,074)
Total cost of sales	**233,837**	**268,810**

25 Selling and distribution expenses

	2014	2013
Transportation costs	9,726	11,096
Security and other services	2,021	5,226
Marketing and advertising	2,894	1,401
Wages and salaries	5,205	6,815
Social insurance contributions	1,521	2,046
License fees	299	281
Rental costs	390	536
Depreciation and amortisation	328	333
Other	1,029	1,109
Total selling expenses	**23,413**	**28,843**

(All amounts in euro thousands unless otherwise stated)

26 Administrative expenses

	2014	2013
Wages and salaries	9,706	12,966
Social insurance contributions	2,314	3,061
Taxes and other charges	1,389	1,740
Representative charges	794	878
Other utilities	187	283
Bank charges	1,425	2,698
Repairs and maintenance	441	674
Depreciation and amortisation	1,389	2,228
Consulting fees	3,212	3,142
Security and other services	572	648
Transportation costs	484	685
Property insurance	68	690
Rental costs	373	533
Communication	283	370
Office supplies	89	101
Other	949	1,171
Total administrative expenses	**23,675**	**31,868**

27 Other (expenses)/ income, net

	2014	2013
Government grants recognised as income	63	5,634
Rental income	384	422
Gain from write off of accounts payable	10	185
Change in provision and write off of trade and other accounts receivable	(1,754)	883
Depreciation	(179)	(265)
Other expenses	(444)	(333)
Loss from revaluation of non-current assets	(6,114)	-
Loss from disposal of non-current assets	(149)	(166)
Loss from disposal and write off of inventories	(1,253)	(16)
Penalties	(432)	(278)
Operational foreign exchange results, net	1,914	2,193
Change in provision and write off of VAT receivable	(1,908)	(1,839)
Total other (expenses)/income, net	**(9,862)**	**6,420**

28 Finance income

	2014	2013
Other finance income	1,096	3,126
Finance foreign exchange income, net	809	1,876
Bank deposits	1,007	728
Total finance income	**2,912**	**5,730**

During 2014 the Group recognized EUR 1,093 thousand (2013: EUR 3,109) of other finance income from related parties as penalties due to the cancellation of agricultural investments for which these related parties were commissioned. Refer to note 6 for further elaboration.

(All amounts in euro thousands unless otherwise stated)

29 Finance expenses

	2014	2013
Bank borrowings	10,107	8,796
Other borrowings	132	-
Finance leases	171	104
Discounting of loans	1,266	1,571
Finance foreign exchange expenses, net	65,227	731
Total finance expenses	**76,903**	**11,202**

30 Income tax

	2014	2013
Current income tax expense	2,800	2,920
Deferred income tax benefit	(5,033)	(860)
Income tax expense	**(2,233)**	**2,060**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2014 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2013: 19%), Russian profit tax was levied at the rate of 20% (2013: 20%), Poland profit tax was levied at the rate of 19% (2013: 19%). In 2014 the tax rate for Panama operations was 0% (2013: 0%) on worldwide income.

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

	2014	2013
(Loss)/Profit before taxation, including	**(74,648)**	**13,720**
(Loss)/Profit of companies levied a single agricultural tax (Ukrainian operations)	(13,320)	3,919
(Loss)/Profit of Ukrainian companies	(54,449)	1,372
Profit of Russian companies	4,059	326
Loss of Poland companies	(4,800)	(4,443)
(Loss)/Profit before income tax of other companies	(4,470)	12,546
Declaration of dividends within the Group	(1,668)	-
Income tax charge at statutory rate of 18% (2013: 19%) (Ukrainian operations)	(9,802)	261
Income tax charge at statutory rate of 20% (Russian operations)	812	65
Income tax charge at statutory rate of 25.5% (Dutch operations)	13	(546)
Income tax charge at statutory rate of 19% (Poland operations)	(912)	(844)
Income tax charge at statutory rate of 10% (Cyprus operations)	(86)	(3)
Change in deferred income taxes resulting from reduction in tax rate	261	(2)
Provision in respect of irrecoverable deferred income tax asset	3,547	-
Reassessment of deferred income tax liability	32	(124)
Tax effect of items which are permanently not deductible or assessable for taxation purposes	3,902	3,253
Income tax (income)/expense	**(2,233)**	**2,060**

At the existing Group's structure tax losses and current tax assets of one company cannot be offset against current income tax liabilities of another company. Correspondently, taxes may be accrued even if there is a net consolidated tax loss. Thus, deferred income tax assets of one company of the Group are not subject to offsetting against deferred income tax liabilities of another company of the Group. The deferred income tax liabilities and assets reflected in the consolidated statement of financial position as at 31 December are as follows:

(All amounts in euro thousands unless otherwise stated)

	2014	2013
Deferred income tax liability	(18,005)	(27,177)
Deferred income tax asset	6,366	8,405
	(11,639)	(18,772)

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

	1 January 2014	Deferred income tax income or expense recognised in profit or loss	Deferred income tax expense recognised in other comprehensive income	Currency Translation	31 December 2014
Recognised deferred income tax assets attributable to the following elements:					
Trade and other receivables	976	(68)	-	(387)	521
Inventories	129	81	-	(68)	142
Property, plant and equipment	74	(17)	-	(28)	29
Trade and other payables	535	3,339	-	(540)	3,334
Advances received	47,760	(4,050)	-	(19,559)	24,151
Financial lease liability	604	(599)	-	(4)	1
Tax losses carried forward	4,371	7,167	-	(2,679)	8,859
Less accrued provision	(8,076)	(3,547)	-	4,042	(7,581)
Defered income	47	(13)	-	(13)	21
Other	57	75	-	(38)	94
Netting with deferred income tax liabilities	(38,072)	(836)	-	15,703	(23,205)
Deffered income tax assets	**8,405**	**1,532**	**-**	**(3,571)**	**6,366**
Recognised deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(202)	(610)	-	69	(743)
Advances paid and prepaid expenses	(48,420)	4,594	-	19,743	(24,083)
Property, plant and equipment	(16,627)	(1,315)	(4,741)	6,299	(16,384)
Netting with deferred income tax assets	38,072	836	-	(15,703)	23,205
Deferred income tax liabilities	**(27,177)**	**3,505**	**(4,741)**	**10,408**	**(18,005)**
Total deferred income tax assets and liabilities	**(18,772)**	**5,037**	**(4,741)**	**6,837**	**(11,639)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2013:

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

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

The Company’s ability to realise deferred income tax assets depends on the ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction.

As at 31 December 2014 deferred income tax assets are shown net of provision for irrecoverable deferred income tax assets at the amount of EUR 7,581 thousand (2013: EUR 8,076 thousand).

31 Contingent and deferred liabilities

Litigation

The Group from time to time participates in legal proceedings. None of them except one mentioned below either separately or in aggregate had significant negative effect on the Group.

DE Milkiland Ukraine, the subsidiary of the Company, participates in a case for the recovery of debt obligations, acting as a defendant. The subject of the lawsuit is a debt collection under the loan agreement for the total amount EUR 1,980 thousand as at 31 December 2014 (note 16). In the mentioned case PJSC "Bank Forum" is a plaintiff and DE Milkiland Ukraine and the Company are solidarity defendants. Another group company DE Aromat acts a mortgagor and granted as collateral its property, plant and equipment with value of EUR 4,648 thousand as at 31 December 2014.

As at 31 December 2014 according to the Court order (in connection with the appeal of the Economic Court of Kiev with letter for legal assistance to the Central Authority of the foreign state (the Netherlands)), the proceedings was postponed to 24 April 2015. This case was created due to the procedure for liquidation of PJSC "Bank Forum" and unwillingness of the Temporary Administration to settle the debt out-of-court.
As at the date of financial statement issue, the shareholders of PJSC "Bank Forum" challenged in court the legality of the introduction of the temporary administration and the opening of liquidation proceedings.

According to the ruling of Supreme Court of Ukraine issued in January 2015, all of the previous court rulings and orders regarding the liquidation of the bank were overturned and the case was adjourned to the new hearing which is not yet appointed. In this regard, the credentials of representatives Deposit Guarantee Fund, acting on behalf of the bank in the courts, are controversial.

If the court decision is not in favor of DE Milkiland Ukraine, such a decision may have an effect on the financial condition or results of operations of the Company subsidiaries. There is a potential risk that the lender can foreclose on DE Milkiland Ukraine by reissuing the ownership of the mortgaged property to a new owner without the knowledge DE Milkiland Ukraine. In addition, penalties for a late return of the loan may be charged.

Management believe that in the case of the completion of disputes relating to the powers of the temporary administration Bank PJSC "Forum" and the decision by a court on the future operations of the Bank, DE Milkiland Ukraine will be able to engage in constructive dialogue with the legitimate administration of the Bank for further restructuring of the company's obligations, as well as the payment of its liabilities and assets deriving from collateral. As at 31 December 2014 no additional obligations except for the direct liabilities under the loan contract were recognized in these financial statements.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the power to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation and it is possible that transactions and activities that have not been challenged in the past may be disputed.
The circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. However, the interpretations of the relative authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(All amounts in euro thousands unless otherwise stated)

Insurance policies

The Group insures all significant property. As at 31 December 2014, most of the Group's property is insured.

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

In 2014 the Company insured its property, plant and equipment for a total amount of EUR 72,937 thousand (2013: EUR 104,117 thousand).

32 Capital management policy

Main objectives of the Group's capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.
Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the years ended 31 December 2014 and 2013 no changes were made in objectives, policies and procedures of the capital management.

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

The Group has external requirements to the capital in respect of syndicate loan received by the Company with outstanding balance as at 31 December 2014 in amount EUR 48,250 thousand:

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

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

As at 31 December 2014 the Group has not met requirement in respect of above mentioned covenants. A waiver of breach of covenants is being negotiated and Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval (note 36). According to the original loan terms signed on December 16, 2012, the Company should repay the whole amount of loan denominated in USD till the end of December 2015. As at 31 December 2014, the full value of loan in amount EUR 48,250 thousand (USD 58,580 thousand in original currency) is classified as current interest bearing loans due to banks (note 16).

	2014	**2013**
Total borrowings	101,920	103,759
Less: cash and cash equivalents	(10,431)	(13,056)
Net debt	**91,489**	**90,703**
Total equity	94,593	175,436
Total capital	**186,082**	**266,139**
Net debt to capital ratio	**96.72%**	**51.70%**

(All amounts in euro thousands unless otherwise stated)

33 Financial risk management

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

Market risk

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

Foreign exchange risk

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

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

As of 31 December 2014 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUR	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	18,464	7,525	12,758	887	**39,634**
Cash and cash equivalents	6,183	406	152	3,657	33	**10,431**
Total financial assets	**6,183**	**18,870**	**7,677**	**16,415**	**920**	**50,065**
Financial Liabilities						
Loans and borrowings	-	76,927	17,843	2,215	4,935	**101,920**
Financial payables within trade and other payables	7	1,257	7,941	5,446	3,093	**17,744**
Total financial liabilities	**7**	**78,184**	**25,784**	**7,661**	**8,028**	**119,664**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2013:

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

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

	2014	2013
USD strengthening by 10% (2013: 10%)	(869)	(982)
USD weakening by 10% (2013: 10%)	869	982
UAH strengthening by 10% (2013: 10%)	500	492
UAH weakening by 10% (2013: 10%)	(500)	(492)
RUR strengthening by 10% (2013: 10%)	4	282
RUR weakening by 10% (2013: 10%)	(4)	(282)

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

Credit risk

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

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

(All amounts in euro thousands unless otherwise stated)

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

	2014	2013
Ratings by Moody's		
A2	-	108
Baa1	-	217
Baa2	-	75
Ba1	-	8
Bbb-	36	-
Caa3	-	714
E	32	-
Unrated	10,324	11,064
Cash on hand	39	870
Total cash and cash equivalents	**10,431**	**13,056**

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

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

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

	31 December 2014		31 December 2013	
Financial assets	Carrying value	Maximum exposure	Carrying value	Maximum exposure
Cash and cash equivalents	10,431	10,431	13,056	13,056
Trade and other receivables	39,634	39,634	47,119	47,119
	50,065	**50,065**	**60,175**	**60,175**

Interest rate risk

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

(All amounts in euro thousands unless otherwise stated)

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

At the end of 2014 the Group had approximately 45% (2013: 44%) of its borrowings in fixed rate instruments and 55% (2013: 56%) in variable rate instruments.

At 31 December 2014, if interest rates on borrowings with had been 1% higher/lower (2013: 1%) with all other variables held constant, post-tax profit for the year would have been EUR 499 thousand lower/higher (2013: EUR 449 thousand).

Liquidity risk

Liquidity risk is a risk, when the Group is not able to pay all liabilities after maturity date. The Group manages and controls over the liquidity. The Group uses procedures for preparation of budget and forecasting cash flows that provides availability of necessary funds for fulfillment its payment liabilities. Based on the estimated cash flows a decision is made to invest cash funds or attract financing if necessary. Performance of the credit risk policy management gives the Group sufficient cash to repay its debts in time.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, which approximate their fair value:

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 14)	17,744	-	-	-
Borrowings	59,561	36,828	4,061	1,470
Total	**77,305**	**36,829**	**4,060**	**1,470**

Comparative information at 31 December 2013 is as follows:

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 14)	21,526	-	-	-
Borrowings	33,113	44,086	27,744	-
Total	**54,639**	**44,086**	**27,744**	**-**

Financial instruments carried at fair value. The Group does not have available-for-sale investments. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Financial assets at amortised cost. An estimated fair value of instruments at fixed interest rate is based upon the method of discounted estimated future cash flows applying interest rates effective at the borrowed funds market for new instruments that provide for the same credit risk and the same maturity term. Discount rates depend on the credit risk from a contractor. The carrying amount of buyers and customers' accounts receivable equals to their fair value.

Financial liabilities at amortised cost. Fair value is evaluated based upon market quotations, if any. An estimated fair value of instruments with fixed interest rate and defined maturity date that do not have market quotation, is based on the discounting estimated cash flows applying interest rates for new instruments with the same credit risk and defined maturity date. The carrying amount of financial liabilities equals to their fair value.

34 Earnings per share

	2014	2013
Numerator		
Earnings used in basic and diluted EPS	(71, 835)	10,835
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250

35 Audit fees

The fees listed below relate to the procedures applied to the company and its consolidated group entities by BDO Audit & Assurance B.V., the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act, as well as by other Dutch and foreign-based BDO individual partnerships and legal entities, including their tax services and advisory groups:

Information for 2014:

	BDO Audit & Assurance B.V.	BDO Accountants &Belasting adviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	96	-	127	**223**
Tax advisory fees		31		**31**
Total	**96**	**31**	**127**	**254**

Comparative information for 2013:

	BDO Audit & Assurance B.V.	BDO Accountants &Belasting adviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	167	-	29	**196**
Tax advisory fees	-	-	-	**-**
Total	**167**	**-**	**29**	**196**

36 Subsequent events

Since the beginning of 2015 the Group has been continuing the negotiations with a syndicate of international banks in order to sign a Stand-still agreement with the banks representing the syndicate. Management expect to sign the Stand-still agreement by the end of June 2015 with following negotiation and signing of long-term restructuring agreement.

The total sum of the Group’s indebtedness to syndicate as at 31 December 2014 stood at USD 58,580 thousand, including an overdue amount of USD 24,720 thousand.

Since the beginning of 2015 the Group has been continuing the negotiations with Credit Agricole Bank in order to sign a restructuring agreement. As at 27 Febrary 2015, additional agreement for prolongation of USD 7,500 thousand to 30 April 2015 was signed. Management expect to sign a long-term restructuring agreement with Credit Agricole Bank by the end of June 2015.

The total sum of the Group’s indebtedness to Credit Agricole Bank as at 31 December 2014 stood at USD 14,457 thousand, including an overdue amount of USD 327 thousand.

Also since the beginning of 2015 the Group has being in negotiations with other lenders with aim to agree restructure of Group borrowings.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2014	31 December 2013
ASSETS			
Current Assets			
Cash and cash equivalents		64	139
Amounts due from group companies	5	61,835	59,951
Other receivables and prepayments	5	-	71
Other taxes receivable	5	13	-
		61,912	**60,161**
Fixed assets			
Goodwill	3	1,391	2,114
Investments in subsidiaries	4	102,650	177,899
		104,041	**180,013**
TOTAL ASSETS		**165,953**	**240,174**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	24,021	21,543
Loans and borrowings	8	48,250	26,153
Other payables	7	1,533	251
Other taxes payables		4	7
		73,808	**47,954**
Non-Current Liabilities			
Loans and borrowings	8	-	21,883
		-	**21,883**
TOTAL LIABILITIES		**73,808**	**69,837**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		68,502	48,752
Currency translation reserve		(45,845)	(18,277)
Retained earnings and unappropriated result		17,676	88,050
Total equity		**92,145**	**170,337**
TOTAL LIABILITIES AND EQUITY		**165,953**	**240,174**

(All amounts in euro thousands unless otherwise stated)

	Notes	2014	2013
Revenue from Group companies		10	237
Administrative expenses	9	(1,023)	(1,230)
Other expenses		(46)	(4)
Operating loss		**(1,059)**	**(997)**
Finance income	10	4,532	6,015
Finance expenses	11	(5,091)	(7,158)
Dividends from subsidiaries		1,668	-
Profit / (loss) before income tax		**50**	**(2,140)**
Income tax		(83)	-
Share of profit of participating interests, after income tax		(71,802)	12,975
(Loss) / profit for the year		**(71,835)**	**10,835**

Notes to the company financial statements

1. General

Reporting entity Milkiland N.V. (the "Company") was incorporated on 13 July 2007. It changed its Articles of Association on 23 May 2008 amending its legal form to public limited liability company. The financial statements of the Company are included in the consolidated statements of Milkiland N.V.

2. Significant accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e., only IFRS that is adopted for use in the EU at the date of authorization) as explained further in the notes to the consolidated financial statements.

Foreign currency

Assets and liabilities in foreign currencies are translated at the official rates of exchange ruling on statement of financial position dates. Transactions in foreign currencies are translated at the applicable exchange rate on the transaction dates. The resulting exchange differences are accounted for in the statement of comprehensive income.

The financial statements of the foreign subsidiaries are translated at the rates of exchange prevailing at the end of the accounting periods. Differences resulting from the translation of assets and liabilities of the group of companies at the rates prevailing at the beginning and at the end of the year are shown as a separate item in shareholders' equity.

Financial fixed assets

Subsidiaries and other participating interests in which significant influence may be exerted are stated at net asset value, using the equity method. The net asset value is calculated on the basis of the accounting policies included in these financial statements. Participating interests whose figures cannot be brought in line with these policies due to insufficient information, are valued based on the financial statements of the participating interest involved. Participating interests with a net asset value of less than nil are carried at nil. If the investing company is liable for the participating interest's debts, a provision will be formed.

Receivables

Accounts receivable are shown after deduction of a provision for bad and doubtful debts where appropriate.

The accounts receivable have a maturity date due within one year.

Cash and cash equivalents

Cash and bank balances are freely disposable, unless stated otherwise.

Current liabilities

The short term liabilities are due within one year.

(All amounts in euro thousands unless otherwise stated)

Bank borrowings

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Profit of participating interests. The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are not recognised.

3. Goodwill

The goodwill of EUR 1,391 thousand (2013: EUR 2,114 thousand) is a result of a subsidiary acquisition and recognised as an asset. Goodwill is initially recognised as an asset during the primary evaluation. Impairment testing is performed annually.

For details see note 11 in consolidated financial statements.

4. Investments in participating interests

	31 December 2014	31 December 2013
JSC Ostankino Dairy Combine, Russia	33,109	39,038
DE Milkiland Ukraine, Ukraine	67,350	131,930
LLC Milkiland RU, Russia	2,557	1,671
LLC Milkiland N.V, Ukraine	(1,693)	(1,194)
Milkiland Intermarket (CY) LTD, Cyprus	(2,095)	(541)
MLK Finance Limited, Cyprus	664	210
Milkiland EU sp. z.o.o., Poland	2,758	6,785
Total investments in participating interests	**102,650**	**177,899**

Movement during the year is the following:

	2014	2013
At 1 January	177,899	171,700
Profit for the year	(71,802)	12,975
Currency translation differences	(25,177)	(10,298)
Acquisition of minority shares in Ostankino Dairy Combine, Russia	-	1,415
Dividends declared by subsidiaries	(1,668)	-
Revaluation of PPE	23,398	-
Investments into subsidiaries	-	2,107
At 31 December	**102,650**	**177,899**

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2014 to 31 December 2014 the Company had the following direct subsidiaries:

Name	Country of incorporation	Share of ownership 31 December 2014	Share of ownership 31 December 2013
MLK Finance Limited	Cyprus	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	100.0%
LLC Milkiland RU	Russia	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%

5. Receivables

	31 December 2014	31 December 2013
Amounts due from group companies		
MLK Finance Limited	50,933	50,948
Milkiland EU sp. z.o.o.	9,577	8,811
DE Milkiland Ukraine	120	40
Milkiland Intermarket (CY) LTD	99	73
JSC Ostankino Dairy Combine, Russia	1,106	58
LLC Milkiland RU, Russia	-	21
Total amounts due from group companies	**61,835**	**59,951**
Other receivables and prepayments		
Other receivables	40	71
Allowance for doubtful debts	(40)	-
Total other receivables and prepayments	**-**	**71**
Taxes and social security		
Input VAT	13	-
Total taxes receivable	**13**	**-**

At 31 December 2014 accounts receivable from MLK Finance Limited represented by EUR 49,713 thousand (2013: EUR 50,578 thousand) of loan issued to this company in October 2012 through transferring of loans previously issued to DE Milkiland Ukraine, PE Ros and LLC Malka-trans and accrued interest of EUR 1,220 thousand (2013: EUR 371 thousand). The loan issued with interest rate of 7.8% plus LIBOR per annum.

At 31 December 2014 accounts receivable from Milkiland EU sp. z.o.o. include EUR 7,597 thousand (2014: EUR 7,440 thousand) of loan issued to this company with interest rate of 7.8% plus LIBOR per annum, EUR 1,226 thousand (2013: EUR 617 thousand) of accrued interest and EUR 754 thousand (2013: EUR 754 thousand) of trade payables.

(All amounts in euro thousands unless otherwise stated)

6. Shareholder's equity

The authorized share capital of the company amounts to EUR 5,000,000 consisting of 50,000,000 ordinary shares with a nominal value of EUR 0.10 each.

Movements in equity during the year may be specified as follows:

	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriated result	Total
Balance as at 1 January 2013	**3,125**	**48,687**	**(7,441)**	**53,228**	**74,702**	**172,301**
Total comprehensive income for the year	-	-	(10,663)	-	10,835	172
Acquisition of minority shares	-	-	(173)	256	281	364
Declaration of Dividends	-	-	-	-	(2,500)	(2,500)
Realised revaluation reserve, net of income tax	-	-	-	(4,732)	4,732	-
Balance as at 31 December 2013	**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**
Total comprehensive income for the year	-	-	(27,568)	23,398	(71,835)	(76,005)
Declaration of Dividends	-	-	-	-	(2,187)	(2,187)
Realised revaluation reserve, net of income tax	-	-	-	(3,648)	3,648	-
Balance as at 31 December 2014	**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**

7. Trade and other payables

	31 December 2014	31 December 2013
Amounts due to Group companies		
Milkiland Corporation	24,010	21,506
LLC Milkiland N.V	11	37
Total amounts due to Group companies	**24,021**	**21,543**
Other payables		
Other accounts payable	56	-
Trade payables	130	8
Interest payable	1,010	163
Wages and salaries payable	337	80
Total other payables	**1,533**	**251**

(All amounts in euro thousands unless otherwise stated)

Accounts payable to Milkiland Corporation include a financial aid from Milkiland Corporation at the amount of EUR 24,010 thousand (2013: EUR 21,506 thousand). This financial aid to Milkiland Corporation are free of interest rates.

8. Loans and borrowings

In 2011 the group signed a loan facility agreement from a syndicate of international banks to provide a loan financing up to USD 100 million with interest rate 7.75% plus LIBOR per annum with maturity in December 2015 and step repayment of the loan starting from December 2012.

9. Administrative expenses

	2014	**2013**
Consultancy fee	53	240
Tax advisory and audit fee	97	167
Wages and salaries	710	652
Other expenses	163	171
Total administrative expenses	**1,023**	**1,230**

Audit fees are disclosed in note 35 to consolidated financial statements.

10. Finance income

	2014	**2013**
DE Milkiland Ukraine	-	14
MLK Finance Limited	3,915	5,419
Milkiland EU sp. z.o.o.	616	544
LLC Milkiland RU	-	35
Bank deposits	1	3
Total finance income	**4,532**	**6,015**

11. Finance expenses

	2014	**2013**
Bank borrowings	3,843	5,342
Milkiland Corporation	-	29
Discounting of loans	1,131	1,503
Finance foreign exchange loss, net	117	284
Total finance expenses	**5,091**	**7,158**

12. Remuneration of Board of Directors members

Remuneration of Board of Directors members is disclosed in Corporate Governance Report included in Annual report.

Board of Directors of Milkiland N.V.

Amsterdam, 30 April 2015

O. Rozhko **A. Yurkevych** **O. Yurkevych**

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

OTHER INFORMATION

Profit allocation and distribution in accordance with articles of association

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

Article 25

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

Proposal for loss allocation

The Board of Directors will propose to the General Meeting of Shareholders to transfer the net loss of EUR 71,835 thousand to retained earnings.

INDEPENDENT AUDITOR'S REPORT

To: The shareholders and Supervisory Board of MILKILAND N.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the financial statements 2014 of MILKILAND N.V. (the company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of MILKILAND N.V. as at 31 December 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
- the company financial statements give a true and fair view of the financial position of MILKILAND N.V. as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2014;
2. the following consolidated statements for 2014: statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at 31 December 2014;
2. the company profit and loss account for 2014; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Material uncertainty related to going concern

We draw your attention to note 1 regarding the economic environment in which the company operates. The company performs a significant part of its activities in Ukraine; the Ukrainian economy is in a protracted crisis, complicated by a military conflict in Eastern Ukraine and the separation of the Autonomous Republic of Crimea. In the course of 2014 international rating agencies significantly downgraded the sovereign debt of Ukraine. More to that, due to the above factors and negative expectation of the country's population, the Ukrainian Hryvnia significantly depreciated to the US Dollar and Euro in 2014. Stabilization of the situation in Ukraine largely depends upon the government actions undertaken in order to address the military conflict and reforming the country's financial, administrative, fiscal and legal system. To solve the above indicated problems, the government introduces measures, such as the partial mobilization of the population for military service, introduction of new taxes and fees, restriction on cash and non-cash foreign currency transactions and so onFurthermore we draw attention to the subsequent event paragraph in note 36 to the financial statements which indicates that the company is in continuing negotiations with several banks in order to restructure loan agreements. Due to the current situation in Ukraine and Russia the company is no longer able to meet the covenants from the banks and scheduled loan repayments.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report. We are independent of MILKILAND N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence requirements in The Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from errors or fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 3.100 thousand. The materiality is based on the revenue and result before taxes as a benchmark. We have allocated 50% of total materiality to the benchmark revenue and set this at 0,65% of total revenue based on interim figures. The other 50% has been based on the benchmark result before taxes and determined as 6,5% of result before tax. We have used a mixed benchmark due to both the importance of revenue and relevance of result before tax for the users of the consolidated financial statements, considering the nature of the entity's business and industry as well as the entity's current operations. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of € 155 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

MILKILAND N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of MILKILAND N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly focused on significant group entities, which are the consolidated financial statements of Milkiland Ltd (Ukraine) and Ostankino Dairy Factory in Moscow.

We have:

- performed audit procedures ourselves at parent entity Milkiland N.V.;
- used the work of other BDO auditors in the Ukrainian, the Russian Federation and in Poland. Given the significance of the Ukrainian and Russian entities we have performed file reviews on both the work of BDO Ukraine and BDO Russia in order to obtain sufficient assurance to be able to rely on the work of our memberfirms.

By performing the procedures mentioned above at these significant components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters are:

- Revenue recognition;
- Completeness of discounts;
- Going concern;
- Valuation of property plant and equipment;
- Valuation of biological assets;
- Exchange differences.

Revenue recognition

Completeness or correctness of revenue is a mandatory risk in accordance with International Standards on auditing. Also given the fact that revenue is one of the key factors for performance of the entity, this is regarded by us as a key audit matter.

In order to get sufficient audit evidence we, and our component auditors, have performed, amongst others, the following procedures:

- Test the internal controls surrounding revenue recognition amongst which, segregation of duties, internal controls on access to ledgers and sub ledgers and internal control on authorization of sales and sales prices;
- Performed substantive audit work on appropriate allocation of revenue to the correct period;
- Performed stock taking procedures at year end;
- Performed reconciliation between delivery of goods and revenue recognized.

We refer to Note 5 to the financial statements for further elaboration on revenue.

Completeness of Discounts

Since Milkiland is supplier to a number of supermarket organizations, it is not uncommon to have discount arrangements in place. Not recognizing discounts in time and in the correct period, could in our opinion have material impact on net result of the company which is why we have determined that this is a key audit matter. In order to address this key audit matter we, and our component auditors have, amongst other work steps, performed the following procedures:

- Test internal controls surrounding recognition and registration of discounts;
- Performed sample tests on contracts with supermarkets and retailers in order to assess the completeness of discounts recognized;
- Performed post balance sheet date testing on any credit invoices issues or amounts paid to verify whether these related to discount arrangements for 2014.

Discounts are netted in revenue, the discounts are included in the amounts reported in note 5 to the financial statements.

Going concern

Due to the economic and political crisis (as highlighted in Note 1 and 36 to the financial statements) and the fact that the covenants with banks have been breached as highlighted in Note 32 to the financial statements, going concern is regarded by us as a key audit matter. In order to support the statement by management that the company is able to continue as going concern we have, amongst others, performed the following procedures:

- Assessed the prognoses for the 13 months starting on May 2015, including testing the mathematical accuracy and assessing the reasonableness of the assumptions taking into account results in prior years;
- Discussed with the syndicate banks their willingness to come to a resolution regarding the loans issued by them;
- Assessed the adequacy of the disclosures relating to going concern in the financial statements.

We refer to Notes 1, 32 and 36 to the financial statements for further elaboration on the issues regarding going concern.

Valuation of property plant and equipment

Valuation of property plant and Equipment is regarded as a key audit matter because of the high degree of subjectivity included in the determination of a potential impairment. Property, plant and equipment is carried at revalued cost. In 2014 all properties in both Ukraine and Russia have been subject to appraisal by third party appraisers. We and our component auditors have challenged all of the assumptions used by the appraisers and have tested the data used for preparing the valuations. Also, we have performed procedures regarding the independence and competence of the appraisers during our audit.

For the Moscow plant, specific audit attention was devoted to testing the fair value of the property compared to the value in use, where we have come to the conclusion that the fair value exceeds the value in use and that thus the value in use is considered as fair value of the property. Furthermore we have assessed the adequacy of the disclosures relating to property, plant and equipment in the financial statements. We refer to Note 12 to the financial statements for further elaboration on the fair value adjustments.

Valuation of biological assets

The biological assets are considered by us as a key audit matter because of its dependence on assumptions in determining the value of these assets. We, and our component auditors, have audited all assumptions used by management in order to determine the value of the biological assets. The most important assumptions refer to price development of milk, raw meat and the expected useful life of the cows owned by MILKILAND N.V. Furthermore we have assessed the adequacy of the disclosures relating to biological assets in the financial statements. We refer to Note 13 to the financial statements for further elaboration on the valuation of biological assets.

Exchange differences

Exchange differences are considered by us as a key audit matter because of the magnitude of the exchange differences due to the decline of the Ukrainian Hryvnia and Russian Rubble in 2014 compared to the Euro and the US Dollar. We, and our component auditors, have tested the correctness of currency translations in operations by sample testing. The appropriate calculation of the movement in the currency translation from functional currency to reporting currency has been tested by audit procedures on all translations included in the consolidation file prepared by management of MILKILAND N.V. Furthermore we have assessed the adequacy of the disclosures relating to exchange differences in the financial statements. We refer to Note 29 to the financial statements for further elaboration on the exchange differences.

Emphasis of matter

We draw your attention to Note 16 on these financial statements which indicates that the company has an outstanding litigation amounting to € 1.980 thousand. Management of Milkiland N.V. is uncertain about the outcome of the litigation. Negative decision on the case could affect the company's financial statements. Our opinion is not modified in respect of this matter.

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- Obtaining an understanding of internal

control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Report on other legal and regulatory requirements

Report on the management board report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed;
- we report that the management board report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the Supervisory Board as auditor of MILKILAND N.V. on 3 October 2014, as of the audit for year 2014 and have operated as statutory auditor ever since that date.

Rotterdam, 30 April 2015

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

J.C. Jelgerhuis Swildens RA

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Milkiland: Results of the Year 2014

Press-release

Kyiv, 30th April 2015 – *Milkiland N.V. has published its consolidated annual report for the year 2014. A new strategy developed in order to address the market challenges.*

Key highlights of 2014

Financials

- **Financial performance**: While sales volumes held relatively well and posted only 2% decline in raw milk equivalent, the Group's consolidated revenues decreased by c. 15% to EUR 288 million, being result of major devaluation of Ukrainian and Russian currencies against euro. Milkiland's EBITDA declined almost two fold from EUR 33.4 million in 2013 to EUR 17.1 million in 2014 on the back of depressed revenues and lower margins, resulting from worsening of product mix (shift from cheese to milk powders) and depressed dairy prices in the EU and Ukraine
- **Financial position**: The Group's total assets declined 29% y-o-y to EUR 239.9 million. Total debt ratio grew from 0.48 to 0.61; net debt grew to EUR 91.5 million on the back of lower cash and cash equivalents. Net Debt/EBITDA ratio increased from 2.71 to 5.35 due to lower EBITDA
- Net cash by the year end decreased to EUR 10.4 million due to a negative cash flow from the financial activities

Operations

- **Raw milk prices**: Continued stagnation of milk farming in Milkiland's core markets, as well as growing demand for locally-produced dairy in Russia and rising input prices in Ukraine resulted in raw milk prices up 19% in Russia and 7% in Ukraine in local currencies equivalent. In euro equivalent, farm-gate prices dropped due to Ukrainian hryvnia and Russian rouble devaluation. Russian embargo also created additional pressure on the local EU market where the raw milk price also dropped as additional volumes of milk became available for processing. In Poland, the average effective raw milk price was 14% lower than in 2013
- **Milk sourcing system:** Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The share of cooperatives' milk in the total volume of raw milk collected by the Group in Ukraine reached c.28% in 2014 (vs. 23% in 2013). Milkiland Agro focused on efficiency improvements resulting in a 22% rise in per cow yield. As a result, the share of in-house milk intake in Ukraine grew to 5%
- In 2014, the Group expanded its presence on the Ukrainian cheese market, especially in the second half of the year, when the Russian market closed for Ukrainian producers. However, Milkiland's **cheese & butter segment** revenues declined by one-third to EUR 105.1 million depressed also by the Ukrainian national currency devaluation. The segment's EBITDA stood at c. EUR 4.9 million, representing a 74% annual decrease. EBITDA margin decreased from 12% in 2013 to 5% in 2014 due to the raw milk price growth and a loss of more profitable Russian market

- The Group's subsidiaries in Russia benefitted from import substitution by gaining their market share and improving profitability in the **WMP segment**. Because of a considerable devaluation of the Group's operational currencies, the Group's total revenues in the fresh dairy segment declined by c. 5% and amounted to c. EUR 137 million in 2014. The segment's EBITDA decreased to EUR 9.8 million compared to EUR 12.2 million or by c. 20% on y-o-y basis
- The global downturn in dairy markets resulted in a margin squeeze for many international producers. In this situation, Ukraine remained the least affected producer of dairy products, as the devaluation of the national currency increased the profitability of export sales. In 2014, the Group capitalised on these trends and increased its sales of **ingredients** in volume and value terms. As the result, Milkiland's revenues in this segment rose by 17% and amounted to EUR 46.6 million. Ingredients sales contributed EUR 4.8 million of EBITDA, representing 10% EBITDA margin (EUR 5.2 million and 13% respectively in 2013)

Milkiland's business was in the epicenter of political and economic turmoil, and hence was negatively affected. Russian bans on food imports from Ukraine and the EU made a double hit to our Group, slashing revenues of exports-oriented Milkiland Ukraine and Ostrowia. As a chain reaction, excessive local dairy supply in Europe caused drop in prices, inhibiting profitability of local players.

In order to offset losses incurred by cheese business after closure of Russian market, Milkiland focused on local markets and new exports destinations. In Ukraine, our market share in cheese advanced from 6.2% in 2013 to 8.1% in 2014. Lower imports opened opportunities to develop higher value added products; in the segment of mould cheese, our sales increased 2.6 times. Diversification of exports geography was connected with product line shift from cheese to dry milk products, since commodity is easier to penetrate new markets. Revenues of Milkiland Intermarket (markets other than Ukraine, Russia and EU) in 2014 grew by 67% compared to the previous year.

On the positive side, Moscow-based Ostankino Dairy Combine significantly improved its performance, both in revenue and profitability, as imports restrictions freed some space for Russian local dairy companies. Ostankino completed installation of new packaging line and launched several new product categories under brands Zhivo and Tselnoskvasheno. This led to increase in market share and shelves presence, primarily in the nation-wide retail chains.

In order to address market challenges, in 2015 Milkiland's management are aiming their efforts on changing the business pillar of the Group from export orientation towards improved excellence in all of the markets of the Group's operations. To improve the local competence, in 2015 Milkiland will focus on participation in import substitution in the markets of Russia and Ukraine, developing an effective distribution network in Poland and catching opportunities in the global commodity markets.

In particular, the Ukrainian division will concentrate on gaining a new market share in the traditional cheese and whole-milk products segments, as well as on development in niche segments, including mould and lactose-free cheese. In order to catch the momentum of improved competiveness of Ukrainian-made dry milk products after the deep devaluation of Ukrainian hryvnia, the Group is going to increase exports of these products to the global market.

Milkiland's Russian division, which gained a positive momentum in 2014 both in terms of increased sales and profitability, will focus on maintaining this trend in 2015, including through further participation in import substitution, as well as growing local cheese production in Russia.

The main goals of Milkiland EU in 2015 will be development of local distribution network in Poland and finding new export opportunities within and outside the EU in order to secure growth of the business both locally and internationally.

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

"2014 proved that Milkiland is indeed a strong business. Our team was flexible, inventive and persistent in managing numerous challenges and achieving goals. The Group controlled well situation in its local markets and actively sought new destinations for exports. After devaluation of Ukrainian hryvnya, we see a lot of potential in exporting dairy products globally, the next steps are to develop sales channels and start improving product mix, shifting from commodity to higher value added products. We look forward to expand our presence in the EU, both on account of Ostrowia and exports from Ukraine. Our Russian business Ostankino posted on of the best results for the last five years, and this positive trend to be continued in 2015.

"Given the developments in post-soviet countries, we changed our view on development focus, and last year the Group has put together foundation for new growth paradigm. While local market for each business unit will remain a strong priority, we will look for expansion of external markets. Milkiland Intermarket was established in 2013 for this purpose, and now this business unit gains a great deal of importance. The Group's management remains committed to further development and finding new ways to improve our business."

About Milkiland N.V.

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

In Russia, the company produces fresh dairy products at Moscow-based OJSC Ostankino Milk Combine and sells under Dobryana and Ostankinskaya brands. In Ukraine, the company operates 10 plants and offers wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands.

In Poland, Milkiland Group controls Mazowiecka Spoldzielnia Mleczarska Ostrowia, the cheese production plant located in in Ostrów Mazowiecka town. Milkiland exports dairy products from Ukraine to over 30 countries.

Shares of Milkiland N.V. has been listed on the Warsaw Stock Exchange since December, 6, 2010.

For additional information please contact:

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