



Interim Statement

Results of the nine months of 2014

Key developments

The nine months of 2014 presented a number of challenges and some opportunities for the Milkiland's business. Political tensions between Ukraine and Russia resulted in a ban imposed by the Russian authorities to import Ukrainian and the EU dairy products subsequently. This situation triggered the decline in the Group's sales in cheese segment.

In order to reduce the negative effect of the Russian ban, the Group put additional efforts on expanding on the non-Russia export markets, as well as on strengthening of the market positions in the countries of operations.

In particular, Milkiland Intermarket significantly expanded sales of Ukrainian cheese and dry milk products to Kazakhstan and other Central Asia countries. Milkiland Ukraine managed to increase cheese sales in the domestic market, thus getting a new market share and improving its position as TOP3 player in cheese segment. Milkiland EU has switched to the Polish market introducing new products there and continued the successful high value added dry milk products export, including to the EU countries.

On the positive side of Russian limitations, Moscow-based Ostankino benefitted from them by participation in import substitution, while in the situation of gradual disappearance of EU dairy products in the Russian market the demand for domestically-produced high value-added dairy has been improving. This led to almost doubled EBITDA of the Russian segment of the Group's business of c. EUR 7.0 million on the y-o-y basis.

Offsetting the above mentioned limitations, the Group shifted the product mix towards WMP and dry milk products. As the major result, sales in Ingredients segment grew by almost 30% y-o-y.

Another important factor that influenced the Group's operations in the nine months of 2014 was deteriorating macroeconomic environment in Ukraine and Russia, including the significant devaluation of the Ukrainian hryvnia and Russian rouble against euro (by 48% and 11%, respectively) together with speeding inflation (c. 16% in Ukraine and c. 6% in Russia).

This devaluation of the two major operational currencies of the Group has undermined the Group's revenue growth in EUR terms despite several increases of prices for finished dairy goods.

On the cost side, the devaluation contributed to a drop in the cost of sales and operating expense but this influence was partially limited by rising milk prices in local currencies in Russia and Ukraine by 23.3% and 7.9% y-o-y, respectively.

In the nine months of 2014, in line with its strategy to build up a sustainable supply system, Milkiland continued to support National Dairy Cooperative Moloko Kraina and develop an in-house milk production. The number of cooperative members grew by 2.5%, while the cattle headcount improved by 3.5%. The milk production by the Cooperative increased by 7% to reach c. 28% of the Group's total milk intake in Ukraine.

The external pressure to the Group's business resulted by the conflict with Russia and its economic implications impaired the ability of Milkiland to timely fulfil certain obligations under the Loan Facility Agreement with a syndicate of international banks formed by Raiffeisen Bank International AG as facility agent, UniCredit Bank Austria AG and ZAO Raiffeisenbank as lenders of the facility.

In September 2014, the Group initiated negotiations for the loan restructuring. As these negotiations progress successfully, Milkiland expects to sign a loan restructuring agreement by the end of 2014.

Overview of Financial Results in the nine months of 2014

Financial results

- Revenues declined by c. 9% to EUR 224.0 million driven by local currencies devaluation in Ukraine and Russia
- Gross profit decreased by 18% to c. EUR 46.1 million due to higher affective raw milk prices and inflated revenue
- Devaluation of PPE contributed to an EBITDA decrease by c.29% to EUR 18.1 million
- As a result of the considerable FX loss, the Group recognized a loss before tax of EUR 39.4 million. Net loss for the nine months of 2014 accounted for EUR 34.8 million.

Segment revenue and performance

Cheese & butter segment contributed approximately 36% to the Group's total revenue and 35% to the EBITDA (c.47% and 52% respectively in the nine months of 2013).

The segment revenue dropped by c.30% to EUR 79.9 million jeopardized by the restrictions imposed by the Russian authorities on dairy imports from a number of countries, including Ukraine and the EU. While cheese sales to Russia were half the 2013 level, sales in Ukraine grew 6% in volume terms. Better butter volume sales were offset by downward price correction on the back of excessive supply.

Whole-milk dairy became the largest segment in terms of revenue and EBITDA providing for 47% and 41% respectively (41% and 35% in the nine months of 2013).

Despite national currencies devaluation, the segment revenue grew by 4% to EUR 105.2 million, resulting mainly from better Ostankino sales. Such revenue advance was underpinned by dynamic development in high value-added products substituting European imports. The segment's EBITDA decreased by about 7%, from EUR 8.8 million to EUR 8.1 million on the back of higher raw milk prices.

In *Ingredients and other products segment*, revenue increased by c.29% to EUR 39.0 million, while segment's EBITDA grew c. 38% to EUR 4.7 million mainly due to higher sales of dry milk products supported by depressed costs due to devaluation of Ukrainian hryvnia.

Cost of sales and gross profit

Cost of sales decreased by 6% in the nine months of 2014 compared to the same period of 2013 and stood at EUR 179.2 million.

While the devaluation of the EUR-denominated costs of raw and other materials in Ukraine and Russia, which national currencies devaluated by 30 September 2014, by 48% and 11% respectively, was partially offset by rising raw milk prices (by 23% y-o-y in

Russia and by 8% in Ukraine in national currencies), labor and labor-related costs decreased by 25%.

A decrease in cheese production and a switch to faster-produced and faster-moving products has led to a decrease in inventories of finished goods and work in progress. This change in finished goods and work in progress accounting for EUR 1.2 million contributed to a rise in other costs of goods sold.

As a result, the Group's gross profit was 18% lower than in the nine months of 2013. The gross margin declined to 20.6% from 23.0%.

Operating profit and EBITDA

Selling and distribution expenses decreased by 22% (to EUR 17.6 million) in the nine months of 2014, mainly due to a 64% drop in security and other services. After a temporary ban of Ukrainian cheese exports to Russia in the first half of 2012, Russian authorities introduced new requirements of quality checks of each cheese batch imported. The costs associated with these quality checks were reported for as security and other services. After the closure of the Russian market for Ukrainian dairy, the costs dropped accordingly.

Marketing and advertising expenses grew in the functional currencies as new products were introduced by Ostankino to the market but this growth was offset with currency devaluation. As a result, marketing and advertising expenses were 13% lower than in 2013.

Transportation costs declined less significantly than other costs, by 5%, due to a rise in fuel prices, while labor costs decreased by 18%.

Administrative expenses decreased by 20% to EUR 18.2 million, mainly devaluation-driven. Labor costs decreased by EUR 1.8 million or by 19%. Bank charges declined by 40% y-o-y to EUR 1.1 million.

In the reporting period, the Group posted other expenses of c. EUR 1.4 million compared with income of EUR 1.6 million in the nine months of 2013, mainly due to a significant decrease in other government grants recognized as income.

A drop in operating expenses partially offset the decreased gross profit though the operating profit declined to EUR 8.9 million. As a result of the operating profit decline and devaluation of PPE located in Ukraine and Russia in EUR terms, the Group's EBITDA declined by c. 29% to EUR 18.1 million. In the nine months of 2014, the Group's EBITDA margin of 8.1% was lower than in the nine months of 2013 when it stood at 10.4%.

Profit before tax and net profit

In the nine months of 2014, financial expense related to bank borrowings grew 24% as a result of a loan portfolio increase. The devaluation of Ukrainian hryvnia and Russian ruble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 41.9 million.

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 39.4 million. Net loss for the first half of 2014 accounted for EUR 34.8 million.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 September 2014 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the nine months ended 30 September 2014 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 14 November 2014

O. Rozhko

/signed/

A. Yurkevych

/signed/

O. Yurkevych

/signed/

G. Logush

/signed/

W. S. van Walt Meijer

/signed/

V. Rekov

/signed/

V. Strukov

/signed/



Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2014

Contents

Condensed Consolidated Interim Financial Statements

Condensed consolidated interim statement of financial position.....	7
Condensed consolidated interim statement of comprehensive income.....	8
Condensed consolidated interim statement of cash flows	9
Condensed consolidated interim statement of changes in equity.....	10

Notes to Condensed Consolidated Interim Financial Statements

1 The Group and its operations	11
2 Summary of significant accounting policies	13
3 Critical accounting estimates and judgments	15
4 Segment information	16
5 Balances and transactions with related parties.....	18
6 Cash and cash equivalents	18
7 Trade and other receivables.....	19
8 Inventories	19
9 Other taxes receivable	19
10 Goodwill.....	20
11 Property, plant and equipment and intangible assets	20
12 Biological assets	21
13 Trade and other payables.....	22
14 Other taxes payable.....	22
15 Loans and borrowings	23
16 Share capital	24
17 Revenue	24
18 Cost of sales	25
19 Selling and distribution expenses.....	25
20 Administrative expenses	26
21 Other income/(expenses), net	26
22 Finance income	27
23 Finance expenses	27
24 Income tax.....	27
25 Change in presentation.....	27
26 Contingent and deferred liabilities.....	28
27 Capital management policy.....	29
28 Earnings per share.....	29

MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

		30 September 2014	31 December 2013	30 September 2013
	Notes	(unaudited)	(audited)	(unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	11,709	13,056	18,863
Trade and other receivables	7	63,880	62,088	57,936
Inventories	8	23,215	29,763	34,727
Current biological assets	12	2,711	7,538	9,605
Current income tax assets		630	19	125
Other taxes receivable	9	13,726	16,781	15,462
		<u>115,871</u>	<u>129,245</u>	<u>136,718</u>
Non-Current Assets				
Goodwill	10	2,791	3,426	3,453
Property, plant and equipment	11	137,669	187,974	189,188
Non-current biological assets	12	2,415	4,102	3,685
Other intangible assets	11	2,610	3,335	4,031
Deferred income tax assets		5,802	8,405	9,527
		<u>151,287</u>	<u>207,242</u>	<u>209,884</u>
TOTAL ASSETS		<u>267,158</u>	<u>336,487</u>	<u>346,602</u>
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	28,631	26,948	25,265
Current income tax liabilities		64	239	9
Other taxes payable	14	2,114	2,271	1,893
Short-term loans and borrowings		100,573	79,284	80,021
		<u>131,382</u>	<u>108,742</u>	<u>107,188</u>
Non-Current Liabilities				
Loans and borrowings	15	6,358	24,475	32,144
Deferred income tax liability		12,800	27,177	28,715
Other non-current liabilities		450	657	697
		<u>19,608</u>	<u>52,309</u>	<u>61,556</u>
Total liabilities		<u>150,990</u>	<u>161,051</u>	<u>168,744</u>
Equity attributable to owners of the Company				
Share capital	16	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		45,216	48,752	48,073
Currency translation reserve		(38,928)	(18,277)	(13,428)
Retained earnings		54,864	88,050	86,338
		<u>112,964</u>	<u>170,337</u>	<u>172,795</u>
Non-controlling interests		<u>3,204</u>	<u>5,099</u>	<u>5,063</u>
Total equity		<u>116,168</u>	<u>175,436</u>	<u>177,858</u>
TOTAL LIABILITIES AND EQUITY		<u>267,158</u>	<u>336,487</u>	<u>346,602</u>

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

	Notes	2014 (unaudited)	2013 (unaudited)
Revenue	17	224,048	245,244
Change in fair value of biological assets		1,293	891
Cost of sales	18	(179,210)	(189,690)
Gross Profit		46,131	56,445
Selling and distribution expenses	19	(17,602)	(22,458)
Administrative expenses	20	(18,228)	(22,702)
Other income/(expenses), net	21	(1,352)	3,951
Gain on subsidiary acquisition		-	34
Operating Profit		8,949	15,270
Finance income	22	1,835	4,466
Finance expenses	23	(50,203)	(7,695)
(Loss)/profit before tax		(39,419)	12,041
Income tax	24	4,581	(1,029)
Net (loss)/profit for the year		(34,838)	11,012
Other comprehensive (loss)/income			
<i>Items that may be subsequently reclassified to profit or loss</i>		(22,242)	(7,916)
Exchange differences on translating to presentation currency		(22,242)	(7,916)
Total comprehensive (loss)/income		(57,080)	3,096
(Loss)/profit attributable to:			
Owners of the Company		(34,534)	10,310
Non-controlling interests		(304)	702
		(34,838)	11,012
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(55,185)	2,728
Non-controlling interests		(1,895)	368
		(57,080)	3,096
Earnings per share		(110.51)	32.99

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

	Note	2014 (unaudited)	2013 (unaudited)
Cash flows from operating activities:			
Loss/profit before income tax		(39,419)	12,041
<i>Adjustments for:</i>			
Depreciation and amortization	11	9,045	10,027
Loss from disposal and write off of inventories	21	939	(107)
Change in provision and write off of trade and other accounts receivable	21	409	(1,036)
Change in provision and write off of unrealised VAT	21	1,619	2,807
Loss from write off, revaluation and disposal of non-current assets	21	122	54
Change in fair value of biological assets		(1,293)	(891)
Operational foreign exchange results, net	21	(1,623)	(2,352)
Gain on subsidiary acquisition			(34)
Finance income	22	(1,835)	(4,466)
Finance expenses	23	50,203	7,695
Write off of accounts payable	21	(8)	(25)
Operating cash flow before movements in working capital		18,159	23,713
Decrease/(Increase) in trade and other accounts receivable		5,577	(10,967)
Decrease in inventories		(1,133)	(9,923)
Decrease/(Increase) in biological assets		4,042	(3,883)
(Decrease)/Increase in trade and other payables		(8,681)	10,091
Increase in other taxes receivable		(3,198)	(7,684)
(Decrease)/increase in other taxes payable		(157)	323
Net cash provided by operations:		14,609	1,670
Income taxes paid		(2,570)	(2,369)
Interest received		1,163	3,376
Interest paid		(7,856)	(7,904)
Net cash provided/(used in) by operating activities		5,346	(5,227)
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(5,452)	(15,068)
Proceeds from sale of property, plant and equipment	11	1	68
Acquisition of subsidiaries, net of cash acquired			(489)
Net cash used in investing activities		(5,451)	(15,489)
Cash flows from financing activities			
Proceeds from borrowings	15	73,362	57,194
Repayment of borrowings	15	(73,123)	(39,645)
Commission paid and fair value adjustment		(38)	200
Acquisition of non-controlling interest		-	(1,423)
Net cash provided by financing activities		201	16,326
Net increase/(decrease) in cash and equivalents		96	(4,390)
Cash and equivalents, beginning of the period	6	13,056	23,850
Effect of foreign exchange rates on cash and cash equivalents		(1,443)	(597)
Cash and equivalents, end of the period	6	11,709	18,863

MILKILAND N.V.
Condensed consolidated interim statement of changes in equity
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							Total equity (unaudited)
	Share capital (unaudited)	Share premium (unaudited)	Foreign currency translation reserve (unaudited)	Revaluation reserve (unaudited)	Retained earnings (unaudited)	Total stockholders' equity (unaudited)	Non-controlling interests (unaudited)	
Balance at 1 January 2013	3,125	48,687	(7,441)	53,228	74,702	172,301	6,384	178,685
Profit for the period	-	-	-	-	10,310	10,310	702	11,012
Other comprehensive income, net of tax effect	-	-	(5,836)	(1,746)	-	(7,582)	(334)	(7,916)
Total comprehensive income for the period	-	-	(5,836)	(1,746)	10,310	2,728	368	3,096
Acquisition of non-controlling interests	-	-	(151)	234	183	266	(1,689)	(1,423)
Declaration of Dividends	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Realised revaluation reserve, net of income tax	-	-	-	(3,643)	3,643	-	-	-
Balance at 30 September 2013	3,125	48,687	(13,428)	48,073	86,338	172,795	5,063	177,858
Balance at 1 January 2014	3,125	48,687	(18,277)	48,752	88,050	170,337	5,099	175,436
Loss for the period	-	-	-	-	(34,534)	(34,534)	(304)	(34,838)
Other comprehensive loss, net of tax effect	-	-	(20,651)	-	-	(20,651)	(1,591)	(22,242)
Total comprehensive loss for the period	-	-	(20,651)	-	(34,534)	(55,185)	(1,895)	(57,080)
Declaration of Dividends	-	-	-	-	(2,188)	(2,188)	-	(2,188)
Realised revaluation reserve, net of income tax	-	-	-	(3,536)	3,536	-	-	-
Balance at 30 September 2014	3,125	48,687	(38,928)	45,216	54,864	112,964	3,204	116,168

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations

These condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the nine months ended 30 September 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 14 November 2014.

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

As at 30 September 2014 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatolii 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, Russia and Poland, able to process up to 1,300 thousand tonnes of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations (continued)

Subsidiaries of the Company are presented below:

Name	Country of incorporation	Effective share of ownership		
		30 September	31 December 2013	30 September 2013
MLK Finance Limited	Cyprus	100.0%	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	100.0%	100.0%	-
Milkiland Corporation	Panama	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%	100.0%
Ostrowia 10 sp. z.o.o	Poland	100.0%	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	100.0%	95,9%
LLC Milkiland RU	Russia	100.0%	100.0%	100.0%
LLC Kursk-Moloko	Russia	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,06%	76,0%	76,06%
PrJSC Gorodnia Milk Plant	Ukraine	72,38%	72,3%	72,38%
LLC Agrosvit	Ukraine	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%	100.0%
DE Borznyiyskiy Milk Plant	Ukraine	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%	100.0%
LLC Moloko Polissia	Ukraine	-	-	100.0%
PrJSC Transportnyk	Ukraine	70,34%	70,3%	70,34%
LLC Milkiland Agro	Ukraine	100.0%	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%	100.0%
PJSC Iskra	Ukraine	70.82%	70.8%	68,1%
DE Agrolight	Ukraine	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	100.0%	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	100.0%	100.0%	100.0%
LLC Avtek Rent Service	Ukraine	100.0%	100.0%	100.0%
AF Konotopska	Ukraine	100.0%	100.0%	100.0%
LLC Batkivschyna	Ukraine	-	-	100.0%
PE Agro PersheTravnya	Ukraine	-	-	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%	100.0%
LLC Zemledar 2020	Ukraine	-	-	100.0%
PAE Dovzhenka	Ukraine	-	-	100.0%
LLC Feskivske	Ukraine	100.0%	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	97.51%	97.0%	-

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the nine months ended 31 September 2014 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRS.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2013.

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

Adoption of new or revised standards and interpretations.

New and amended standards adopted by the Group. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

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

The availability and price of raw materials required by the Group are also subject to seasonal fluctuation. As a result of the lifecycle of herds of cows and seasonal temperature changes, raw milk production in Ukraine and peaks during the summer months, typically creating a raw milk surplus and resulting in lower prices, and then falls during the autumn. In a summer the Group purchases all raw milk when there is a surplus so as to enhance its working relationship with its suppliers. The Group manages this surplus by drying milk in a summer and uses or sells it in the winter periods.

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. The Group sources approximately 30% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclical and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. During the nine months ended 30 September 2014 the in-house milk production covered c.4% of milk intake in Ukraine.

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

Foreign currency. Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in euro, which is the Company's functional and the Group's presentation currency.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the balance sheet date. Income and expenses of foreign operations are translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

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

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

	US dollar	UAH	RUR	PLN
As at 30 September 2014	1.2583	16.2940	49.9540	4.1755
Average for nine months ended 30 September 2014	1.3554	14.9591	47.9894	4.1757
As at 31 December 2013	1.3791	11.0231	44.9699	4.1472
As at 30 September 2013	1.3505	10.7945	43.6497	4.2163
Average for nine months ended 30 September 2013	1.3168	10.5254	41.6507	4.2017

3 Critical accounting estimates and judgments

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

Below are the main assumptions as to future events and other sources of uncertainties of estimates at the reporting dates that are of a great risk of the necessity to make significant adjustments to the carrying amount of assets and liabilities during the next reporting year:

Impairment of property, plant and equipment. Detection of impairment indications of property, plant and equipment provides for use of estimates that include, in particular, reasons, terms and amounts of the impairment. Impairment is based upon the analysis of many factors, such as: changes in current competitive conditions, expectations of an industry recovery, capital appreciation, changes in possibilities of future financing attraction, technological obsolescence, servicing suspension, current replacement cost and other changes in circumstances that indicate the impairment.

Management's estimates are required in order to determine the compensation amount for a cash generating unit. The value in use estimation includes methods based on the estimation of expected future discounted cash flows. This requires the Group to evaluate these cash flows for cash generating units and choose a grounded discount rate to calculate a present value of cash flows.

The estimations including the applied methodology may have significant effect on the fair value and impairment amount of property, plant and equipment.

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.

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 7.

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.

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

4 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 products;
- Whole-milk - This segment is involved in production and distribution of whole-milk products;
- *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.

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

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

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

The segment information by country for the nine months ended 30 September is as follows:

	2014				2013			
	Russia	Ukraine	Poland	Total	Russia	Ukraine	Poland	Total
Total segment revenue	117,419	110,526	21,265	249,210	98,589	156,887	9,532	265,008
Inter-segment revenue	(439)	(18,567)	(6,156)	(25,162)	-	(19,764)	-	(19,764)
Revenue from external customers	116,980	91,959	15,109	224,048	98,589	137,123	9,532	245,244
EBITDA	7,114	13,120	(371)	19,863	4,058	24,408	(1,194)	27,272
EBITDA margin	6%	14%	(2%)	9%	4%	18%	(13%)	11%
Depreciation and amortisation	1,977	5,612	1,456	9,045	2,539	6,413	1,075	10,027

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

4 Segment information (Continued)

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

The segment information by product for the nine months ended 30 September is as follows:

	2014				2013			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	103,089	105,214	40,907	249,210	129,594	100,723	34,691	265,008
Inter-segment revenue	(23,231)	-	(1,931)	(25,162)	(15,240)	-	(4,524)	(19,764)
Revenue from external customers	79,858	105,214	38,976	224,048	114,354	100,723	30,167	245,244
EBITDA	7,046	8,129	4,688	19,863	15,233	8,757	3,400	27,272
EBITDA margin	9%	8%	12%	9%	13%	9%	11%	11%
Depreciation and amortisation	3,965	3,743	1,337	9,045	3,950	4,395	1,682	10,027

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

	2014	2013
EBITDA	19,863	27,272
Other segments EBITDA	(1,747)	(1,837)
Total segments	18,116	25,435
Depreciation and amortisation	(9,045)	(10,027)
Non-recurring items	-	(117)
Loss from disposal and impairment of non-current assets	(122)	(55)
Finance expenses	(50,203)	(7,695)
Finance income	1,835	4,466
Gain on subsidiary acquisition	-	34
(Loss)/Profit before tax	(39,419)	12,041

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

5 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 nine months ended 30 September were as follows:

<i>Entities under common control:</i>	2014	2013
Revenue	1,873	1,966

The outstanding balances due from related parties were as follows:

<i>Entities under common control:</i>	30 September 2014	31 December 2013	30 September 2013
Trade accounts receivable	5,842	1,645	6,940
Other financial assets	17,533	17,144	2,630
Other accounts receivable	1,381	160	-

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the nine months ended 30 September 2014 paid or payable to key management for employee services is EUR 554 thousand (2013: EUR 617 thousand).

6 Cash and cash equivalents

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

	30 September 2014	31 December 2013	30 September 2013
Short term deposits	9,534	6,880	14,891
Cash in bank and cash on hand	2,175	6,176	3,972
Total cash and cash equivalents	11,709	13,056	18,863

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables	30 September 2014	31 December 2013	30 September 2013
Trade accounts receivable	31,537	30,358	38,112
Other financial assets	17,712	17,847	11,804
Allowance for doubtful debts	(1,047)	(1,086)	(1,640)
Total financial assets within trade and other receivables	48,202	47,119	48,276
Advances issued	11,312	12,684	6,990
Other receivables	5,457	3,900	4,221
Allowance for doubtful debts	(1,091)	(1,615)	(1,551)
Total trade and other accounts receivable	63,880	62,088	57,936

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.

8 Inventories

	30 September 2014	31 December 2013	30 September 2013
Raw and other materials	8,634	12,267	11,745
Finished goods and work in progress	13,568	15,604	20,790
Agriculture produce	1,013	1,892	2,192
Total inventories	23,215	29,763	34,727

9 Other taxes receivable

	30 September 2014	31 December 2013	30 September 2013
VAT recoverable	13,515	16,428	15,018
Payroll related taxes	126	117	174
Other prepaid taxes	85	236	270
Total other taxes receivable	13,726	16,781	15,462

VAT receivable as at 30 September 2014 is shown net of provision at the amount of EUR 958 thousand (31 December 2013: EUR 1,736 thousand; 30 September 2013: EUR 1,043 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% (31 December 2013: 25%; 30 September 2013: 25%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

MILKILAND N.V.
Notes to the condensed consolidated financial statements
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	<u>2014</u>	<u>2013</u>
Balance at 1 January	3,426	3,485
Foreign currency translation	(635)	(32)
Balance at 30 September	<u>2,791</u>	<u>3,453</u>

Goodwill is initially recognized 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.

11 Property, plant and equipment and intangible assets

During nine months ended 30 September 2014 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 5,452 thousand (2013: EUR 15,068 thousand), which comprised mainly modernisation of milk processing capacities (2013: investments to agricultural business of the Group in Ukraine and production assets of JSC “Syrodel” in Rylsk city of Kursk region (Russian Federation)).

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

12 Biological assets

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

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

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

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

As at 30 September 2014, 2013 and 31 December 2013 biological assets comprise the following groups:

	30 September 2014		31 December 2013		30 September 2013	
	Units	Amount	Units	Amount	Units	Amount
Current biological assets of animal breeding						
Cattle	3,117	1,703	4,253	4,211	4,210	3,101
Other livestock		549		863		1,267
Total biological assets of animal breeding		2,253	4,253	5,074		4,368
Current biological assets of plant growing						
Wheat	-	-	3,929	1,018	-	-
Maize	200	122	1,372	768	7,281	4,496
Other		336		678		741
Total biological assets of plant growing		458	5,301	2,464		5,237
Total current biological assets		2,711		7,538		9,605
Non-current biological assets						
Cattle	2,857	2,415	3,286	4,102	3,402	3,685
Total non-current biological assets	2,857	2,415	3,286	4,102	3,402	3,685

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 September 2014	31 December 2013	30 September 2013
Trade payables	20,170	20,930	16,387
Accounts payable for fixed assets	523	347	281
Interest payable	145	163	175
Other financial payables	41	86	-
Total financial liabilities within trade and other payable	20,879	21,526	16,843
Wages and salaries payable	2,300	2,121	2,775
Advances received	672	482	898
Dividends payable	2,188	-	2,500
Other accounts payable	857	434	749
Accruals for employees' unused vacations	1,735	2,385	1,500
Total trade and other payables	28,631	26,948	25,265

Financial liabilities are normally settled within 60-days period.

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

14 Other taxes payable

	30 September 2014	31 December 2013	30 September 2013
VAT payable	970	881	455
Payroll related taxes	1,007	1,217	1,271
Other taxes payable	137	173	167
Total other taxes payable	2,114	2,271	1,893

MILKILAND N.V.
Notes to the condensed consolidated financial statements
For the nine months ended 30 September 2014
(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings

	30 September 2014	31 December 2013	30 September 2013
Current			
Interest bearing loans due to banks	99,586	76,561	78,850
Bank overdrafts	479	2,033	349
Finance leases	508	690	822
Total current borrowings	100,573	79,284	80,021
Non-current			
Interest bearing loans due to banks	4,729	22,437	29,535
Finance leases	1,629	2,038	2,609
Total non-current borrowings	6,358	24,475	32,144
Total borrowings	106,931	103,759	112,165

Movement in loans and borrowings during the nine months ended 30 September 2014 and 2013 was as follows:

	2014	2013
Balance at 1 January	103,759	96,953
Obtained new loans and borrowings	73,324	10,334
Repaid loans and borrowings	(73,123)	(10,541)
Discounting of borrowings	595	553
Foreign exchange (gain)/loss	2,376	14,866
Balance at 30 September	106,931	112,165

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 September 2014 and 31 December 2013 were as follows:

	30 September 2014					31 December 2013				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	71,586	2,584	23,044	3,359	100,573	49,970	4,455	21,459	3,400	79,284
Average interest rate, %	10.54	20.70	9.11	4.45	10.27	10.27	17.87	9.90	4.46	10.35
1-5 years										
Outstanding balance, thousand EUR	4,729	5	-	1,624	6,358	22,437	12	-	2,026	24,475
Average interest rate, %	8.46	24.00	-	5.61	7.75	11.00	24.00	-	5.61	10.56

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings (Continued)

As at 30 September 2014 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio. A waiver of breach of covenants being issued in August 2014 and Management are in process of negotiation with lenders as at the date of these financial statements approval. Non-current interest bearing loans due to banks in the amount EUR 12,424 thousand were classified as current interest bearing loans due to banks (note 26).

16 Share capital

Share capital as at 30 September is as follows:

	2014		2013	
	Number of shares	EUR 000	Number of shares	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
<i>Ordinary shares of 10c each</i>				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 30 September	31,250,000	3,125	31,250,000	3,125

17 Revenue

Sales by product during the nine months ended 30 September was as follows:

	2014	2013
Cheese & Butter	79,858	114,931
Whole-milk products	105,214	100,723
Ingredients	38,976	29,590
Total revenue	224,048	245,244

Regional sales during the nine months ended 30 September was as follows:

	2014	2013
Russia	129,250	152,420
Ukraine	64,699	76,302
Poland	14,944	9,532
Other	15,155	6,990
Total revenue	224,048	245,244

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2014	2013
Raw and other materials	133,669	142,816
Wages and salaries	9,190	12,247
Depreciation	7,416	8,171
Transportation costs	5,784	8,804
Gas	6,187	7,649
Electricity	4,219	5,521
Social insurance contributions	3,103	4,061
Repairs of property, plant and equipment	2,463	2,374
Water	865	796
Other	5,107	4,034
Changes in finished goods and work in progress	1,207	(6,783)
Total cost of sales	179,210	189,690

19 Selling and distribution expenses

	2014	2013
Transportation costs	7,661	8,051
Security and other services	1,710	4,814
Marketing and advertising	1,349	1,554
Wages and salaries	4,078	4,949
Social insurance contributions	1,208	1,579
Licence fees	257	210
Rental costs	333	420
Depreciation and amortisation	250	213
Other	756	668
Total selling expenses	17,602	22,458

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

20	Administrative expenses	2014	2013
	Wages and salaries	7,602	9,409
	Social insurance contributions	1,837	2,179
	Taxes and other charges	1,047	1,298
	Representative charges	601	860
	Other utilities	139	208
	Bank charges	1,140	1,910
	Repairs and maintenance	329	527
	Depreciation and amortisation	1,195	1,493
	Consulting fees	2,234	1,887
	Security and other services	406	488
	Transportation costs	315	486
	Property insurance	58	513
	Rental costs	293	386
	Communication	216	278
	Office supplies	68	71
	Other	748	709
	Total administrative expenses	18,228	22,702
21	Other income/(expenses), net	2014	2013
	Government grants recognised as income	438	3,372
	Gain from write off of accounts payable	8	25
	Change in provision and write off of trade and other accounts receivable	(409)	1,036
	Depreciation and amortisation	(196)	(150)
	Other income, net	189	152
	Loss from disposal of non-current assets	(122)	(54)
	Loss from disposal and write off of inventories	(939)	107
	Penalties	(325)	(82)
	Operational foreign exchange results, net	1,623	2,352
	Change in provision and write off of VAT receivable	(1,619)	(2,807)
	Total other income/(expenses), net	(1,352)	3,951

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

22	Finance income	2014	2013
	Other finance income	3	2,820
	Finance foreign exchange gain, net	1,028	1,090
	Bank deposits	804	556
	Total finance income	1,835	4,466
23	Finance expenses	2014	2013
	Bank borrowings	7,567	6,115
	Other finance expenses	54	62
	Finance leases	128	35
	Discounting of loans	595	553
	Finance foreign exchange loss, net	41,859	930
	Total finance expenses	50,203	7,695
24	Income tax	2014	2013
	Current income tax	1,868	1,957
	Deferred income tax	(6,449)	(928)
	Total income tax	(4,581)	1,029

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.

25 Change in presentation

In the course of preparation of financial statements for the financial year ended 31 December 2013 management has revised accounting for recognition of exchange differences on monetary items. 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”.

Effects of reclassifications on the statement of comprehensive income for the nine months ended 30 September 2013 are summarized in the table below:

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

25 Change in presentation (Continued)

	<u>As previously reported</u>	<u>Reclassifications</u>	<u>As reclassified</u>
Statement of Comprehensive Income			
Other income/(expenses), net	1,599	2,352	3,951
Operating Profit	12,884	2,352	15,236
Finance income	3,376	1,090	4,466
Finance expenses	(6,765)	(930)	(7,695)
Foreign exchange gain/(loss), net	2,512	(2,512)	-
EBITDA	23,079	2,352	25,435

26 Contingent and deferred liabilities**Litigation**

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

Insurance policies

The Group insures all significant property. As at 30 September 2014 and 30 September 2013, most of the Group's property is insured.

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

Compliance with covenants

The Group is subject to certain covenants related to part of its borrowings as follow:

- 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.

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

As at 30 September 2014 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio. A waiver of breach of covenants being issued in August 2014 and Management are in process of negotiation with lenders as at the date of these financial statements approval. Non-current interest bearing loans due to banks in the amount EUR 11,116 thousand were classified as current interest bearing loans due to banks (note 15).

MILKILAND N.V.**Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2014**

(All amounts in euro thousands unless otherwise stated)

27 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 nine months ended 30 September 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.

28 Earnings per share

	<u>2014</u>	<u>2013</u>
<i>Numerator</i>		
Earnings used in basic and diluted EPS	<u>(34,534)</u>	<u>10,310</u>
<i>Denominator, in thousand</i>		
Weighted average number of shares used in basic and diluted EPS	<u>31,250</u>	<u>31,250</u>