Report of the Board of Directors on operations in the first half of 2014

Contents

Overview of Operations in H1 2014 and Outlook for the Year 2014

Strategy and Operations

Developing political tension between Russia and Ukraine that resulted in further deterioration of business relations between two countries was the major factor influencing the Group.

Russian competent authorities, including Federal Service for Supervision of Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor), continued accusing Ukrainian food producers of non-compliance with Russian food safety requirements and restricted imports of dozens of Ukrainian dairy plants. This triggered the decline of the Ukrainian dairy export to Russia primarily in cheese segment. Export sales of this product from Ukraine to Russia contracted by 1.8 times in H1 2014 y-o-y.

In case of Milkiland, on April 7, 2014, Rospotrebnadzor suspended Okhtyrka cheese plant (c. 19% of the Group's total cheese capacities). Milkiland's appeals to conduct a proper investigation were not supported by Rospotrebnadzor. As a result, the Group's cheese sales volumes in Russia in H1 2014 declined by more than one third y-o-y. Situation in Ukrainian and Polish markets was more favorable. Due to this fact and overall better pricing, revenues in cheese&butter declined less significantly, by c. 20%.

In whole-milk products segment, Milkiland posted 7% increase in revenues on y-o-y basis. The Group's Moscow-based Ostankino Dairy Combine remained a locomotive of this growth (+8 y-o-y). Thus, Ostankino EBITDA advanced by c. 50% in H1 2014 in comparison with the same period of 2013.

Revenues in the Ingredients segment boosted by 56%, with Polish-based Ostrowia being the main contributor. Milkiland-Ukraine also significantly increased ingredients sales, switching to dry milk products as cheese exports to Russia were banned.

On the cost side, the raw materials prices demonstrated some positive trends in H1 2014. In particular, the milk prices in Ukraine during January-June 2014 declined by 16% in local currency. In EUR terms the drop was even more significant due to devaluation of UAH, thus improving international cost competitiveness of Milkiland-Ukraine.

The situation in Poland was similar. Prices for raw milk corrected by c. 10% during H1 2014, but remained on average c. 15% higher than in the same period of 2013.

In Russia raw milk prices somewhat declined, but still were roughly by one-third higher than in H1 2013.

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. Steady growth of the operations of "Moloko Kraina", reflected in the growing number of its members and headcount of milking cows in lease, led to an increase in the volume of milk production by this entity by c. 7% in H1 2014 on y-o-y basis. The share of "cooperative" milk in the total milk supply in Ukraine in this period totaled 27.4%, thus meeting the strategic goal to increase this share up to at least 25%.

In line with the increase in average milk yield in Milkiland-Agro dairy farms by c.13%, the in-house milk production grew by c. 6% y-o-y.

Key financial results of the Group in H1 2014 reflected the influence of major macroeconomic challenges faced by Ukrainian and Russian economies. Due to devaluation of Ukrainian hryvnia (by c. 46%) and Russian ruble (7%) against euro, the Group's EUR-denominated revenue decreased c. 1% y-o-y to EUR 149.8 million, despite better sales in a number of segments.

The Group's EBITDA in H1 2014 declined by 15% compared to H1 2013, the main factor being deteriorated sales mix, as cheese imports to Russia were significantly restricted, and the Group had to switch to less marginal products such as dry milk.

Dairy Markets

Global dairy prices softened in the first half of 2014 on the back of better supplies and easing Chinese demand. FAO Dairy Price Index consisting of butter, SMP, WMP and cheese decreased 12% from 267.7 in January 2014 to 236.5 in June.

Russia's recently announced ban on dairy and other agricultural imports from the European Union, the United States, Australia, Canada and Norway is likely to have a negative impact on the international prices. With production growing in many regions, prices are not expected to rebound until early 2015.

Unlike in major producing regions, Russian milk suppliers struggled to maintain milk production. According to the Moscow bureau of the US Department of Agriculture (USDA), in 2014 Russian milk output is expected to fall 1.16 million tons (almost 4% y-o-y) to 30.5 million tons. This is yet another year of declining production after a 4% y-o-y output reduction in 2013. This slide in production has already led to a 32% y-o-y increase in raw milk prices in H1 2014. Despite some lagging behind of the prices for dairy products, they grew 15-25% y-o-y and continued their rise further on.

Measured by trade values, Russia accounted for about 7.5% of total world dairy imports in 2013, excluding intra-EU trade, and about 70% of Russia's dairy imports came from the now-banned countries, almost all from the EU and Ukraine. This might fuel a further price rise for raw milk in Russia, since the domestic supply remains tight. Shortage of the domestically produced raw milk is the key bottleneck of the Russian market where dairy producers are limited in their opportunities to rise the processing in order to substitute now-banned imported products.

In Ukraine, raw milk production was almost flat (+1.2% y-o-y). Milk production by households continued stagnating and represented over 70% of the total milk output. Milk production by farms grew 5% y-o-y. With the increasing share of more expensive 'industrial' milk (produced at farms as opposed to cheaper milk produced at households) and reviving demand in early 2014, Ukrainian raw milk price grew 11% y-o-y in the first half of 2014. The prices peaked in February and March (+20% y-o-y), while early spring speeded up the downward correction. Russian ban imposed on cheese imports from a number of Ukrainian producers in April also contributed to the downward trend. Low domestic consumption and the civil conflict in the Eastern Ukraine led to a decline in dairy sales domestically. According to Infagro, whole milk products and cheese consumption declined by 5% and 8% y-o-y respectively. Due to the ban introduced by Russian authorities, cheese exports decreased by 1.8 times in H1 2014.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2014 and 2013 in thousands Euro.

Selected financial data

	6 m 2014	6 m 2013
I. Revenues	149,775	151,145
II. EBITDA	13,452	15,881
III. Operating profit	7,011	9,060
IV. Profit (loss) before tax	(30,707)	6,157
V. Net profit (loss)	(27,260)	5,542
VI. Cash flows provided by (used in) operating activities	(3,751)	(4,010)
VII. Cash flows used in investing activities	(3,218)	(14,478)
VIII. Cash flows (used in) provided by financing activities	7,666	8,300
IX. Total net cash flow	697	(10,188)
X. Total assets	276,041	344,318
XI. Current liabilities	119,556	97,750
XII. Non-current liabilities	32,188	69,076
XIII. Share capital	3,125	3,125
XIV. Total equity	121,172	174,367
XV. Weighted average number of shares	31,250,000	31,250,000
XVI. Profit (loss) per ordinary share, EUR cents	(85.58)	15.93

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2014	6 m 2013
Revenue	149,775	151,145
Change in fair value of biological assets	(193)	941
Cost of sales	(117,462)	(118,052)
Gross profit	**32,120**	**34,034**
Operating income (expense), net	(25,109)	(24,974)
Operating profit	**7,011**	**9,060**
Net finance expense and other non-operating income (expense)	(37,718)	(2,903)
Profit (loss) before tax	**(30,707)**	**6,157**
Income tax (expense) benefit	3,447	(615)
Net profit (loss)	**(27,260)**	**5,542**
Other comprehensive income (loss)	(23,879)	(2,812)
Total comprehensive income	**(51,139)**	**2,730**
Net profit (loss) attributable to equity holders of the parent company	**(26,743)**	**4,979**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR)	**(85.58)**	**15.93**

Revenue

On the back of the Ukrainian hryvnia and Russian ruble devaluation against euro in the first half of 2014, the Group's EUR-denominated revenue decreased c. 1% y-o-y to EUR 149.8 million, despite better sales in a number of segments.

Restrictions imposed by Russia on imports from Ukraine limited cheese&butter segment performance for the first six months of the year. As a result, segment revenue dropped 21% from EUR 69.0 million to EUR 54.7 million. In volume terms, Ostrowia more than doubled its sales y-o-y after receiving all due permissions from Ukrainian and Customs Union authorities. Ukrainian cheese sales contracted due to Russian restrictions.

This decrease was compensated by a significant rise in other segments. WMP segment demonstrated a 7% rise in revenue on the back of an 8% increase in Ostankino volume sales. Ostrowia sales of dry milk products mainly contributed to a 56% increase of revenues in the Ingredients segment. For more information on the above changes, please refer to section *Overview of Operations in H1 2014 and Outlook for the Year 2014*.

Breakdown of the Group's consolidated revenue by product in H1 2014 and H1 2013

	2014		2013		2014 vs. 2013	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	54,735	37%	68,980	46%	(14,245)	-21%
Whole milk products	73,099	49%	68,076	45%	5,023	7%
Ingredients and other	21,941	15%	14,089	9%	7,852	56%
Total	**149,775**	**100%**	**151,145**	**100%**	**(1,370)**	**-1%**

In the total revenue, cheese and butter sales accounted for 37%, whole milk products for 49% (46% and 45% respectively in the first half of 2013).

Cost of sales and Gross profit

Cost of sales reached EUR 117.5 million (EUR118.1 million in H1 2013). The devaluation of the Ukrainian hryvnia and Russian ruble contributed to a stability in the cost of sales, despite a sharp rise in the raw milk prices in Russia (+32% y-o-y) and 11% higher than in 2013 prices in Ukraine.

Despite growing raw milk prices and rising WMP sales in Russia, such devaluation led to a 3% y-o-y decrease in the cost of raw and other materials, mainly milk, in EUR terms. As a result, the share of raw and other materials in the total consolidated revenue decreased from 62% in H1 2013 to 61% in H1 2014. For more information on the raw milk prices and supply, refer to section *Dairy Markets*.

Due to the same currency devaluation, labor and depreciation costs decreased by 19% and 3% respectively. Decrease in transportation costs (9%) was due to a slower rise in fuel prices.

Considerable increase in other costs represented a decrease in the Group's EUR-denominated inventories.

Breakdown of the Group's cost of sales in H1 2014-2013, '000 EUR and %

	2014		2013	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	91,488	78%	94,183	80%
Wages and salaries	6,515	6%	8,035	7%
Depreciation	5,211	4%	5,397	5%
Transportation costs	3,914	3%	4,316	4%
Gas	4,312	4%	4,960	4%
Other	6,022	5%	1,161	1%
Total	**117,462**	**100%**	**118,052**	**100%**

The Group's gross profit decreased by 6% to EUR 31.9 million due to a negative change in the fair value of biological assets, with the gross margin of 21% against 23% in the first half of 2013.

Profit from operations and EBITDA

A pressure put by lower EUR-denominated revenue and a negative change in the fair value of biological assets on the gross margin in the first half of 2014 resulted in a decrease in the Group's EBITDA by 15% to EUR 13.5 million, EBITDA margin constituted 9.0% in H1 2014 vs. 10.5% in H1 2013. Selling and distribution expenses and administrative expenses dropped 14% each on the back of operating currency devaluation.

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, labor-intensive costs decreased significantly. A EUR 0.9 million drop in the security and other services was due to a cut of cheese exports from Ukraine to Russia and thus a decrease in thereof-related services.

In administrative expenses, labor and labor-related costs dropped EUR 1.0 million due to the above reasons. In the first half of 2013, the Group contracted a number of loans from local and international banks. Bank charges related to these new loans accounted for EUR 1.3 million. In the first half of 2014, bank charges decreased to EUR 0.8 million.

Other operation expenses net were EUR 0.1 million in H1 2014 in comparison with an operation income of EUR 4.0 million in H1 2013, mainly due to a significant decrease in government grants recognized as income.

Profit before tax and Net profit

In the first half of 2014, financial expense related to bank borrowings grew 19% 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 33.4 million (compared to EUR 1.8 million of a foreign exchange gain in H1 2013).

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 30.7 million. Net loss for the first half of 2014 accounted for EUR 27.3 million.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2014	December 31, 2013	June 30, 2013
Cash and cash equivalents	12,452	13,056	13,783
Trade and other receivables	62,020	62,088	50,981
Inventories	25,658	29,763	35,181
Other current assets	19,776	24,338	27,099
Total current assets	**119,906**	**129,245**	**127,044**
PPE	141,919	187,974	195,817
Deferred income tax assets	5,851	8,405	9,832
Other non-current assets	8,365	10,863	11,625
Total non-current assets	**156,135**	**207,242**	**217,274**
Total assets	**276,041**	**336,487**	**344,318**
Trade and other payables	23,729	26,948	27,302
Short-term loans and borrowings	93,853	79,284	67,908
Other current liabilities	1,974	2,510	2,540
Total current liabilities	**119,556**	**108,742**	**97,750**
Loans and borrowings	16,194	24,475	38,642
Deferred income tax liability	15,508	27,177	29,757
Other non-current liabilities	486	657	677
Total non-current liabilities	**32,188**	**52,309**	**69,076**
Total liabilities	**151,744**	**161,051**	**166,826**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	54,502	79,162	89,420
Retained earnings	63,666	88,050	79,863
Total equity attributable to equity holders of the parent company	**121,293**	**170,337**	**172,408**
Non-controlling interests	3,004	5,099	5,084
Total equity	**124,297**	**175,436**	**177,492**
Total liabilities and equity	**276,041**	**336,487**	**344,318**

Assets

Due to the Ukrainian hryvnia and Russian ruble devaluation in the first half of 2014, The Group's EUR-denominated assets decreased. Current assets decreased by 7% from EUR 129.2 million as of December 31, 2013 to EUR 119.9 million as of June 30, 2014, mainly due to a decrease in inventories, current biological assets and other taxes receivable.

A decrease in other taxes receivable by 17% represent a decrease in VAT recoverable due to lower exports from Ukraine.

Trade and other receivables remained stable with trade accounts receivable 1% lower than on December 31, 2013.

Since most of the Group's production assets are located in Ukraine, UAH devaluation also resulted in a 25% decrease in PPE. Due to these factors, non-current assets dropped 25% and total assets 18% to EUR 276.0 million.

Liabilities and equity

Total liabilities decreased by 6% resulting from a decline in non-current liabilities. Long-term borrowings fell 34% to EUR 16.2 million. As at 30 June 2014, the Group did not meet requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio. A waiver of breach of covenant was issued in August 2014 and Management are in process of negotiation with lenders as at the date of the 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. Additionally, the Group's loan portfolio grew as a result of additional borrowing of EUR 52.0 million by the Group's subsidiaries. During the first half of 2014, the Group repaid EUR 44.3 million of loans.

As a result of the above movements, during the first six months of 2014 the net debt of the Group grew 8% and stood at EUR 97.6 million as of June 30, 2014 (EUR 92.8 million as of June 30, 2013). Total Debt Ratio constituted 0.55 vs. 0.48 on June 30, 2013 and December 31, 2013.

The Group's total equity decreased by 29% to EUR 124.3 million on the back of a 28% decrease in retained earnings and a more than doubled currency translation reserve, as well as reduced non-controlling interest. Net debt/equity ratio was 0.79 as of June 30, 2014 vs. 0.52 as of December 31, 2013.

Basis of Preparation

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

Material Factors and Events

Material Factors and Events during the Reporting Period

Distribution of dividends

On June 20, 2014, The Annual General Meeting of Shareholders of the Company approved to declare a dividend of EUR 0.07 per ordinary share for the year ended 31 December 2013, for payment on 14 November 2014 to shareholders who were on the register of shareholders at the close of business on 31 October 2014. The dividend shall be paid in EUR.

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

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. He is responsible for strategic business development of Milkiland Ukraine on the Ukrainian and export markets.

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

Financing arrangements

Credit Agricole Bank facilities

- On December 4, 2013 a Loan agreement between PJSC Credit Agricole Bank, the Ukrainian subsidiary of Credit Agricole Group, on one side, and DE Milkiland Ukraine together with its agri-subsidiaries ALLC Nadiya, PJSC Iskra, LLC Uspih-Mena, on another side, was signed. The agreement is aimed to provide a loan financing to DE Milkiland-Ukraine and its subsidiaries in total amount up to USD 15 million. It has come into force on 24 February 2014 after the conditions precedent were fully met by Milkiland. 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. The proceeds from this facility will be used to repay the existing Ukrainian banks loans and for financing of the agricultural operations of Milkiland Group.

Bank of Moscow facilities

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

Raiffeisen Bank Aval facilities

- On February 21, 2014, Milkiland Ukraine and Raiffeisen Bank Aval entered into a three-months unsecured loan agreement for the total amount of UAH 12,7 million (EUR 1.0 million). The loan was fully repaid in April 2014.

The crisis in Ukraine's relations with Russian Federation

Since the beginning of 2014, political and trade relations between Ukraine and Russian Federation have been deteriorating. This situation resulted in obstacles to Milkiland cheese exports to Russia and negatively influenced on the Group's business and financial results in H1 2014.

By the end of January 2014, Federal Customs Service of Russian Federation imposed tightened customs clearance procedures of the Ukrainian goods at the Russian border adding an additional bureaucracy and timing to the process of the Group's cheese supplies to Russian market.

On April 7, 2014, Federal Service for Supervision of Consumer Rights Protection and Human Wellbeing of the Russian Federation (Rospotrebnadzor) suspended the import of dairy goods produced by number Ukrainian producers, including Milkiland's Okhtyrka cheese combine. Rospotrebnadzor restricted import of Okhtyrka-made cheese due to alleged failure to meet the requirements of Russian technical regulations for milk and milk products. y several Ukrainian producers to Russia, including cheese produced by Milkiland's Okhtyrka cheese combine.

Ukraine-EU Association Agreement

At an EU summit in Brussels on 21 March 2014, the Ukrainian Prime Minister, Arseniy Yatseniuk, and European Union leaders, along with the 28 national political leaders or heads of state on the European Council, signed the political provisions of the Association Agreement. The European Union and the Ukrainian President Petro Poroshenko signed the economic part of the Ukraine–European Union Association Agreement on 27 June 2014. The Deep and Comprehensive Free Trade Area (DCFTA) is part of the association agreement. Under the Agreement, the parties will progressively establish a free trade area over a transitional period of a maximum of 10 years starting from the entry into force of the agreement.

Each party will reduce or eliminate customs duties on originating goods of the other party. Ukraine will eliminate customs duties on imports for certain worn clothing and other worn articles. Both parties will not institute or maintain any customs duties, taxes or other measures having an equivalent effect imposed on, or in connection with, the exportation of goods to the territory of each other. Existing customs duties or measures having equivalent effect applied by Ukraine will be phased out over a transitional period. Each party is restricted from maintaining, introducing or reintroducing export subsidies or other measures with equivalent effect on agricultural goods destined for the territory of the other party.

Ukraine will take the necessary measures in order to gradually achieve conformity with EU technical regulations and EU standardization, metrology, accreditation, conformity assessment procedures and the market surveillance system, and undertakes to follow the principles and practices laid down in relevant EU Decisions and Regulations.

Material Factors and Events after the Reporting Date

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

On August 4, 2014, the Extraordinary General Meeting of Shareholders of the Company re-appointed Mr. Oleg Rozhko as non-executive member of the Board of Directors, Chairman of the Board as of the date of this General Meeting, for a period ending at the close of the Annual General Meeting of Shareholders to be held in 2016.

On August 4, 2014, the Extraordinary General Meeting of Shareholders of the Company re-appointed Mr. Willem Scato van Walt Meijer as a non-executive director, Head of Audit Committee as of the date of this General Meeting, for a period ending at the close of the Annual General Meeting of Shareholders to be held in 2016.

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.

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

Suspension of dairy imports to Russian Federation

On July 4, The Federal Service for Supervision of Consumer Rights Protection and Human Wellbeing of the Russian Federation (Rospotrebnadzor) suspended the imports to Russia of milk and dairy production produced by seven Ukrainian subsidiaries of Milkiland Ukraine. These restrictions do not address specific products but a group of seven production facilities, four of which have not supplied anything to the Russian Federation for over the last five years.

The imposture of sanctions against food imports from the Western economies by Russian Federation

On August 7, 2014, Russia imposed a "full embargo" on food imports from the EU, US and some other Western countries, in response to sanctions over Ukraine. These sanctions include fruit, vegetables, meat, fish, milk and dairy imports. The European Commission said the Russian embargo was "clearly politically motivated".

According to BBC, EU food exports to Russia last year were worth EUR 11.8 billion while US food exports to Russia were worth EUR 972 million. Russia was the EU's second-biggest market for food exports (10% of total), after the US (13%).

Strategic Plans and Initiatives for H2 2014

The Group's management plan to further implement in the second half of 2014 the strategic plans and initiatives aimed at the capitalization on the international model of the Group's business, including by the developing at EU market and seeking a new markets for the Group, strengthening Milkiland's positions in the key markets of Ukraine and Russia, improvement of the efficiency of its business. It includes, *inter alia,* the following measures:

Production:

- Modernize Syrodel cheese making plant in Rylsk in order to increase a capacity utilization of the facility and advance in cheese production in Russia.
- Reconstruct the facilities in Mena and Okhtyrka in order to produce the additional volumes of high value added mould cheese in Ukraine.
- To optimize a product portfolio of Ostankino in order to advance with the production of higher value added products (different kind of sour creams, yogurts) and catch the opportunities of dairy import substitution after the Russian sanctions against EU, US and third countries.
- To proceed with modernisation of JSC "Syrodel" in Rylsk in order to secure the localisation of cheese production in Russia

Raw materials

- To continue a fine tuning of the operations of Milkiland-Agro modern dairy farm and other milk farming operations in order to increase the milk yields to support the further growth of in-house milk production.
- To support a further evolutionary development of "Moloko Krainy" partner dairy cooperative business.

New markets and distribution:

- To pass the relevant procedures during the visit of the inspectors of Directorate General of the EU Commission SANCO on the admission of the Ukrainian dairy producers to the EU market, scheduled for end of September 2014. To implement all of the requirements from the inspectors (if any).
- To develop a distribution network in Kazakhstan and in Central Asia countries.
- To seek for a new business opportunities in Middle East and MENA countries.

Sales and marketing:

- To increase sales in Ukrainian market by means of promotion of dairy goods under the Group's Dobryana brand, streamlining the product portfolio, further development of the distribution network.
- To promote a Group's flagman cheese type "King Author" under Dobryana brand in the Polish market.
- To promote the high values added dairy products under Ostankino's new brands "Zhivo", "Tselnoskvasheno" in the Russian market.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 June 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 six months ended 30 June 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, 29 August 2014

O. Rozhko	A. Yurkevych	O. Yurkevych
/signed/	/signed/	/signed/
G. Logush	W. S. van Walt Meijer	V. Rekov
/signed/	/signed/	/signed/
V. Strukov		
/signed/		

Milkiland N.V.

Condensed Consolidated Interim Financial Statements
For the six months ended 30 June 2014

Contents

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

	Notes	30 June 2014 (unaudited)	31 December 2013 (audited)	30 June 2013 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	12,452	13,056	13,783
Trade and other receivables	7	62,020	62,088	50,981
Inventories	8	25,658	29,763	35,181
Current biological assets	12	5,160	7,538	11,520
Current income tax assets		630	19	137
Other taxes receivable	9	13,986	16,781	15,442
		119,906	**129,245**	**127,044**
Non-Current Assets				
Goodwill	10	2,971	3,426	3,586
Property, plant and equipment	11	141,919	187,974	195,817
Non-current biological assets	12	2,640	4,102	3,853
Other intangible assets	11	2,754	3,335	4,186
Deferred income tax assets		5,851	8,405	9,832
		156,135	**207,242**	**217,274**
TOTAL ASSETS		**276,041**	**336,487**	**344,318**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	23,729	26,948	27,302
Current income tax liabilities		80	239	1
Other taxes payable	14	1,894	2,271	2,539
Short-term loans and borrowings		93,853	79,284	67,908
		119,556	**108,742**	**97,750**
Non-Current Liabilities				
Loans and borrowings	15	16,194	24,475	38,642
Deferred income tax liability		15,508	27,177	29,757
Other non-current liabilities		486	657	677
		32,188	**52,309**	**69,076**
Total liabilities		**151,744**	**161,051**	**166,826**
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		46,393	48,752	51,077
Currency translation reserve		(40,578)	(18,277)	(10,344)
Retained earnings		63,666	88,050	79,863
		121,293	**170,337**	**172,408**
Non-controlling interests		**3,004**	**5,099**	**5,084**
Total equity		**124,297**	**175,436**	**177,492**
TOTAL LIABILITIES AND EQUITY		**276,041**	**336,487**	**344,318**

(All amounts in euro thousands unless otherwise stated)

	Notes	2014 (unaudited)	2013 (unaudited)
Revenue	17	149,775	151,145
Change in fair value of biological assets		(193)	941
Cost of sales	18	(117,462)	(118,052)
Gross Profit		**32,120**	**34,034**
Selling and distribution expenses	19	(12,274)	(14,299)
Administrative expenses	20	(12,754)	(14,751)
Other income/(expenses), net	21	(81)	4,042
Gain on subsidiary acquisition		-	34
Operating Profit		**7,011**	**9,060**
Finance income	22	1,345	2,492
Finance expenses	23	(39,063)	(5,395)
(Loss)/profit before tax		**(30,707)**	**6,157**
Income tax	24	3,447	(615)
Net (loss)/profit for the year		(27,260)	**5,542**
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(23,879)	(2,812)
Total comprehensive (loss)/income		**(51,139)**	**2,730**
(Loss)/profit attributable to:			
Owners of the Company		(26,743)	4,979
Non-controlling interests		(517)	563
		(27,260)	**5,542**
Total comprehensive (loss)/income:			
Owners of the Company		(49,044)	2,341
Non-controlling interests		(2,095)	389
		(51,139)	**2,730**
Earnings per share		(85.58)	15.93

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

	Note	2014 (unaudited)	2013 (unaudited)
Cash flows from operating activities:			
Loss/profit before income tax		**(30,707)**	**6,157**
Adjustments for:			
Depreciation and amortization	11	6,332	6,704
Loss from disposal and write off of inventories	21	520	102
Change in provision and write off of trade and other accounts receivable	21	340	(997)
Change in provision and write off of unrealised VAT	21	752	2,663
Loss from write off, revaluation and disposal of non-current assets	21	109	293
Change in fair value of biological assets		193	(941)
Operational foreign exchange results, net	21	(1,303)	(1,761)
Gain on subsidiary acquisition		-	(34)
Finance income	22	(1,345)	(2,285)
Finance expenses	23	39,063	4,769
Write off of accounts payable	21	(6)	(23)
Operating cash flow before movements in working capital		**13,948**	**14,647**
Increase in trade and other accounts receivable		(1,333)	(3,645)
Decrease in inventories		(2,345)	(10,263)
Decrease/(Increase) in biological assets		(47)	(5,639)
(Decrease)/Increase in trade and other payables		(4,660)	12,068
Increase in other taxes receivable		(2,480)	(7,233)
(Decrease)/increase in other taxes payable		(377)	969
Net cash (used in)/provided by operations:		**2,706**	**904**
Income taxes paid		(2,059)	(1,800)
Interest received		783	2,285
Interest paid		(5,181)	(5,399)
Net cash (used in)/provided by operating activities		**(3,751)**	**(4,010)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(3,219)	(14,040)
Proceeds from sale of property, plant and equipment	11	1	51
Acquisition of subsidiaries, net of cash acquired		-	(489)
Net cash used in investing activities		**(3,218)**	**(14,478)**
Cash flows from financing activities			
Proceeds from borrowings	15	51,975	34,546
Repayment of borrowings	15	(44,273)	(24,712)
Commission paid and fair value adjustment		(36)	(111)
Acquisition of non-controlling interest		-	(1,423)
Net cash provided by/(used in) financing activities		**7,666**	**8,300**
Net increase/(decrease) in cash and equivalents		**697**	**(10,188)**
Cash and equivalents, beginning of the period	6	**13,056**	**23,850**
Effect of foreign exchange rates on cash and cash equivalents		(1,301)	121
Cash and equivalents, end of the period	6	**12,452**	**13,783**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	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)**	**Total equity (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	-	-	-	-	4,979	**4,979**	563	**5,542**
Other comprehensive income, net of tax effect	-	-	(2,752)	114	-	**(2,638)**	(174)	**(2,812)**
Total comprehensive income for the period	**-**	**-**	**(2,752)**	**114**	**4,979**	**2,341**	**389**	**2,730**
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	-	-	-	(2,499)	2,499	**-**	-	**-**
Balance at 30 June 2013	**3,125**	**48,687**	**(10,344)**	**51,077**	**79,863**	**172,408**	**5,084**	**177,492**
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	-	-	-	-	(26,743)	**(26,743)**	(517)	**(27,260)**
Other comprehensive loss, net of tax effect	-	-	(22,301)	-	-	**(22,301)**	(1,578)	**(23,879)**
Total comprehensive loss for the period	**-**	**-**	**(22,301)**	**-**	**(26,743)**	**(49,044)**	**(2,095)**	**(51,139)**
Realised revaluation reserve, net of income tax	-	-	-	(2,359)	2,359	**-**	-	**-**
Balance at 30 June 2014	**3,125**	**48,687**	**(40,578)**	**46,393**	**63,666**	**121,293**	**3,004**	**124,297**

1 The Group and its operations

These condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the six months ended 30 June 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 29 August 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 31 December 2013 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 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.

(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 June 2014	31 December 2013	30 June 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	76,0%	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	72,3%	72,3%	72,3%
LLC Agrosvit	Ukraine	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%	100.0%
DE Borznyanskiy 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	70,3%	70,3%	70,3%
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	70.8%	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	97.0%	97.0%	-

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the six months ended 31 June 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 cyclicality and seasonal variations.

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

(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 June 2014	1.3658	16.1483	45.8251	4.1609
Average for six months ended 30 June 2014	1.3707	14.0966	47.9875	4.1757
As at 31 December 2013	1.3791	11.0231	44.9699	4.1472
As at 30 June 2013	1.3080	10.4548	42.7180	4.3292
Average for six months ended 30 June 2013	1.3130	10.4944	40.7444	4.1783

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.

(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 six months ended 30 June is as follows:

	2014				**2013**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	81,601	76,767	13,711	172,079	63,590	91,511	5,918	161,019
Inter-segment revenue	(391)	(17,794)	(4,119)	(22,304)	-	(9,874)	-	(9,874)
Revenue from external customers	81,210	58,973	9,592	149,775	63,590	81,637	5,918	151,145
EBITDA	**4,779**	**10,384**	**(487)**	**14,676**	**2,798**	**14,972**	**(536)**	**17,234**
EBITDA margin	6%	18%	(5%)	10%	4%	18%	(9%)	11%
Depreciation and amortisation	1,451	3,921	960	6,332	1,662	4,378	664	6,704

(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 six months ended 30 June is as follows:

	2014				**2013**			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	75,088	73,099	23,892	172,079	75,896	68,076	11,131	155,103
Inter-segment revenue	(20,353)	-	(1,951)	(22,304)	(6,916)	-	2,958	(3,958)
Revenue from external customers	54,735	73,099	21,941	149,775	68,980	68,076	14,089	151,145
EBITDA	**6,461**	**6,120**	**2,095**	**14,676**	**9,232**	**5,939**	**2,063**	**17,234**
EBITDA margin	12%	8%	10%	10%	13%	9%	15%	11%
Depreciation and amortisation	2,752	2,643	937	6,332	2,704	2,907	1,093	6,704

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

	2014	**2013**
EBITDA	14,676	17,234
Other segments EBITDA	(1,224)	(1,353)
Total segments	**13,452**	**15,881**
Depreciation and amortisation	(6,332)	(6,704)
Non-recurring items	-	(117)
Loss from disposal and impairment of non-current assets	(109)	(34)
Finance expenses	(39,063)	(5,395)
Finance income	1,345	2,492
Gain on subsidiary acquisition	-	34
(Loss)/Profit before tax	**(30,707)**	**6,157**

(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 six months ended 30 June were as follows:

Entities under common control:	**2014**	**2013**
Revenue	816	1,345

The outstanding balances due from related parties were as follows:

Entities under common control:	**30 June 2014**	**31 December 2013**	**30 June 2013**
Trade accounts receivable	5,043	1,645	5,642
Other financial assets	15,234	17,144	2,716
Other accounts receivable	166	160	-

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2014 paid or payable to key management for employee services is EUR 340 thousand (2013: EUR 598 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 June 2014	**31 December 2013**	**30 June 2013**
Short term deposits	9,462	6,880	10,841
Cash in bank and cash on hand	2,990	6,176	2,942
Total cash and cash equivalents	**12,452**	**13,056**	**13,783**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	30 June 2014	31 December 2013	30 June 2013
Trade accounts receivable	31,651	30,358	37,648
Other financial assets	15,751	17,847	2,764
Allowance for doubtful debts	(970)	(1,086)	(2,061)
Total financial assets within trade and other receivables	***46,432***	***47,119***	***38,351***
Advances issued	13,281	12,684	11,585
Other receivables	3,485	3,900	2,639
Allowance for doubtful debts	(1,178)	(1,615)	(1,594)
Total trade and other accounts receivable	**62,020**	**62,088**	**50,981**

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 June 2014	31 December 2013	30 June 2013
Raw and other materials	7,709	12,267	10,577
Finished goods and work in progress	17,027	15,604	23,448
Agriculture produce	922	1,892	1,156
Total inventories	**25,658**	**29,763**	**35,181**

9 Other taxes receivable

	30 June 2014	31 December 2013	30 June 2013
VAT recoverable	13,604	16,428	15,086
Payroll related taxes	104	117	144
Other prepaid taxes	278	236	212
Total other taxes receivable	**13,986**	**16,781**	**15,442**

VAT receivable as at 30 June 2014 is shown net of provision at the amount of EUR 818 thousand (31 December 2013: EUR 1,736 thousand; 30 June 2013: EUR 2,334 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 June 2013: 35%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2014	2013
Balance at 1 January	3,426	3,485
Foreign currency translation	(455)	101
Balance at 30 June	**2,971**	**3,586**

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 six months ended 30 June 2014 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 3,219 thousand (2013: EUR 14,040 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)).

(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 June 2014, 2013 and 31 December 2013 biological assets comprise the following groups:

	30 June 2014		**31 December 2013**		**30 June 2013**	
Current biological assets of animal breading	Units	Amount	Units	Amount	Units	Amount
Cattle	3,552	1,520	4,253	4,211	4,470	3,662
Other livestock	-	564	-	863	-	1,075
Total biological assets of animal breading	**3,552**	**2,084**	**4,253**	**5,074**	**4,470**	**4,737**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount	Hectares	Amount
Wheat	3,423	1,609	3,929	1,018	3,526	1,038
Maize	200	131	1,372	768	7,440	4,237
Barley	1,018	293	-	-	2,140	653
Other	-	1,044	-	678	-	855
Total biological assets of plant growing	**4,641**	**3,077**	**5,301**	**2,464**	**5,665**	**6,782**
Total current biological assets		**5,160**		**7,538**		**11,520**
Non-current biological assets	Units	Amount	Units	Amount	Units	Amount
Cattle	3,386	2,640	3,286	4,102	3,638	3,853
Total non-current biological assets	**3,386**	**2,640**	**3,286**	**4,102**	**3,638**	**3,853**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 June 2014	31 December 2013	30 June 2013
Trade payables	18,112	20,930	18,205
Accounts payable for fixed assets	85	347	343
Interest payable	135	163	178
Other financial payables	117	86	14
Total financial liabilities within trade and other payable	**18,449**	**21,526**	**18,740**
Wages and salaries payable	2,040	2,121	2,410
Advances received	904	482	863
Dividends payable	-	-	2,500
Other accounts payable	300	434	1,255
Accruals for employees' unused vacations	2,036	2,385	1,534
Total trade and other payables	**23,729**	**26,948**	**27,302**

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 June 2014	31 December 2013	30 June 2013
VAT payable	581	881	1,080
Payroll related taxes	1,140	1,217	1,082
Other taxes payable	173	173	377
Total other taxes payable	**1,894**	**2,271**	**2,539**

(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings

	30 June 2014	31 December 2013	30 June 2013
Current			
Interest bearing loans due to banks	92,901	76,561	67,508
Bank overdrafts	463	2,033	-
Finance leases	489	690	400
Total current borrowings	**93,853**	**79,284**	**67,908**
Non-current			
Interest bearing loans due to banks	14,381	22,437	37,960
Finance leases	1,813	2,038	682
Total non-current borrowings	**16,194**	**24,475**	**38,642**
Total borrowings	**110,047**	**103,759**	**106,550**

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

	2014	2013
Balance at 1 January	**103,759**	**96,953**
Obtained new loans and borrowings	51,939	10,334
Repaid loans and borrowings	(44,273)	(10,541)
Discounting of borrowings	484	395
Foreign exchange (gain)/loss	(1,862)	9,409
Balance at 30 June	**110,047**	**106,550**

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

	30 June 2014					31 December 2013				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	60,197	3,700	26,645	3,311	**93,853**	49,970	4,455	21,459	3,400	**79,284**
Average interest rate, %	10.28	20.35	9.12	4.43	**10.14**	10.27	17.87	9.90	4.46	**10.35**
1-5 years										
Outstanding balance, thousand EUR	14,381	6	-	1,807	**16,194**	22,437	12	-	2,026	**24,475**
Average interest rate, %	9.88	24.00	n/a	5.61	**9.41**	11.00	24.00	-	5.61	**10.56**

15 Loans and borrowings (Continued)

As at 30 June 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 26).

16 Share capital

Share capital as at 30 June 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				
Ordinary shares of 10c each				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 30 June	**31,250,000**	**3,125**	**31,250,000**	**3,125**

17 Revenue

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

	2014	**2013**
Cheese & Butter	54,734	68,980
Whole-milk products	73,099	68,076
Ingredients	21,942	14,089
Total revenue	**149,775**	**151,145**

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

	2014	**2013**
Russia	94,467	93,983
Ukraine	37,472	47,441
Poland	9,592	5,918
Other	8,244	3,803
Total revenue	**149,775**	**151,145**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2014	2013
Raw and other materials	91,488	94,183
Wages and salaries	6,515	8,035
Depreciation	5,211	5,397
Transportation costs	3,914	4,316
Gas	4,312	4,960
Electricity	2,835	3,369
Social insurance contributions	2,179	2,706
Repairs of property, plant and equipment	1,728	1,703
Water	540	466
Other	2,423	1,122
Changes in finished goods and work in progress	(3,683)	(8,205)
Total cost of sales	**117,462**	**118,052**

19 Selling and distribution expenses

	2014	2013
Transportation costs	5,196	5,418
Security and other services	1,480	2,384
Marketing and advertising	885	978
Wages and salaries	2,839	3,322
Social insurance contributions	829	1,062
Licence fees	213	134
Rental costs	217	223
Depreciation and amortisation	170	289
Other	445	489
Total selling expenses	**12,274**	**14,299**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2014	**2013**
Wages and salaries	5,363	6,197
Social insurance contributions	1,298	1,442
Taxes and other charges	702	856
Representative charges	423	450
Other utilities	100	155
Bank charges	810	1,341
Repairs and maintenance	227	190
Depreciation and amortisation	829	917
Consulting fees	1,515	1,121
Security and other services	270	282
Transportation costs	206	265
Property insurance	47	334
Rental costs	205	238
Communication	158	185
Office supplies	55	93
Other	546	685
Total administrative expenses	**12,754**	**14,751**

21 Other income/(expenses), net

	2014	**2013**
Government grants recognised as income	413	3,934
Gain from write off of accounts payable	6	23
Change in provision and write off of trade and other accounts receivable	(340)	997
Depreciation and amortisation	(135)	(100)
Other income, net	283	123
Loss from disposal of non-current assets	(109)	(33)
Loss from disposal and write off of inventories	(520)	(362)
Penalties	(230)	(57)
Operational foreign exchange results, net	1,303	2,180
Change in provision and write off of VAT receivable	(752)	(2,663)
Total other income/(expenses), net	**(81)**	**4,042**

(All amounts in euro thousands unless otherwise stated)

22 Finance income

	2014	2013
Other finance income	(3)	(1,873)
Finance foreign exchange gain, net	(834)	(207)
Bank deposits	(508)	(412)
Total finance income	**(1,345)**	**(2,492)**

23 Finance expenses

	2014	2013
Bank borrowings	5,055	4,261
Other finance expenses	35	113
Finance leases	93	-
Discounting of loans	484	395
Finance foreign exchange loss, net	33,396	626
Total finance expenses	**39,063**	**5,395**

24 Income tax

	2014	2013
Current income tax	1,348	1,334
Deferred income tax	(4,795)	(719)
Total income tax	**(3,447)**	**615**

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 six months ended 30 June 2013 are summarized in the table below:

(All amounts in euro thousands unless otherwise stated)

25 Change in presentation (Continued)

	As previously reported	Reclassifications	As reclassified
Statement of Comprehensive Income			
Other income/(expenses), net	(1,862)	(2,180)	(4,042)
Operating Profit	(6,846)	(2,180)	(9,026)
Finance income	(2,285)	(207)	(2,492)
Finance expenses	4,769	626	5,395
Foreign exchange gain/(loss), net	(1,761)	1,761	-
EBITDA	(13,701)	(2,180)	(15,881)

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 June 2014 and 30 June 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 expresses in EUR.

As at 30 June 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 covenant 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).

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 six months ended 30 June 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

	2014	**2013**
Numerator		
Earnings used in basic and diluted EPS	**(26,743)**	**4,979**
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	**31,250**	**31,250**