Milkiland B.V. and Milkiland Corporation
Combined Financial Statements

For years ended 31 December 2007, 2006

Management Report

Application stated below should be considered in conjunction with description of independent auditors' responsibilities provided on page F-111 of independent auditor's report is carried out in order to segregate responsibility of management and independent auditors in respect of the combined financial statements of Milkiland B.V. and Milkiland Corporation (the Group).

Management is responsible for preparation of the combined financial statements that present fairly in all material aspects the financial position of the Group as at 31 December 2007, 2006, cash flow and changes in equity as at this date in accordance with International Financial reporting Standards (IFRS).

During preparation of the combined financial statements management is responsible for:

Selection of appropriate financial accounting principles and their future applying;

Using reasonable estimations and assumptions;

Follow IFRS and disclosing all material deviations in notes to the combined financial statements;

Preparation of the combined financial statements based on going-concern assumption, less cases when such assumption is illegible.

Management is responsible for:

Development, implementation and functioning effective and reliable internal control system in the Group.

Maintain financial accounting system that allows at any moment prepare at a certain degree of accuracy information on financial position of the Group and provides compliance of combined financial statements with IFRS requirements.

Take measures within self competence to secure Group's assets.

Avoid and disclose fraud.

Combined financial statements for the year 2006 a 2007 were confirmed on 25 June 2008 on behalf of Group's management.

Vyacheslav Rekov
President

Milkiland

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Independent Auditor's report

To the Shareholders of Milkiland Corporation and Milkiland B.V.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Milkiland B.V. and Milkiland Corporation (further – the Group), which comprise the combined balance sheet as at 31 December 2007, 2006 and the combined income statement, combined statement of changes in equity and combined cash flow statement for years ended 31 December 2007, 2006 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects of the financial position of Group as at 31 December 2007, 2006 and of its financial performance and its cash flows for years ended 31 December 2007, 2006 in accordance with IFRS.

Kyiv, 25 June 2008

BDO

BDO LLC

Combined Balance Sheet
As at 31 December 2007, 2006

(in 000 EUR)	*Notes*	*31 December 2007*	*31 December 2006*
ASSETS			
Current Assets:			
Cash and cash equivalents	15	28,006	3,919
Accounts receivable, net of allowance for doubtful accounts	14	22,376	8,554
Inventories	13	18,954	10,392
Prepayments		2,948	601
Taxes receivable	17	3,929	4,024
		76,213	27,491
Non-Current Assets:			
Property, plant and equipment	12	57,691	42,580
Deferred tax asset	16	2,860	–
		60,551	42,580
TOTAL ASSETS		136,764	70,071
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	18	28,810	9,867
Taxes payable	19	1,336	659
Bank loans	20	37,982	5,233
		68,128	15,759
Non-Current Liabilities:			
Long-term bank loans	20	36,570	33,588
Deferred tax liabilities	16	2,860	–
		39,430	33,588
Minority Interest		1,187	–
Stockholders' Equity:			
Share capital	21	18	10
Additional paid-in capital		2,482	987
Declared dividends	11	51	–
Currency translation reserve		(3,214)	1,255
Retained earnings		28,682	18,472
		28,019	20,723
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		136,764	70,071

Vyacheslav Rekov
President

See accompanying notes to combined financial statements.

Combined Income Statement

For years ended 31 December 2007, 2006

(in 000 EUR)	*Notes*	*Year ended 31 December 2007*	*Year ended 31 December 2006*
Sales	5	164,939	113,495
Cost of goods sold	6	(107,911)	(75,941)
Gross Profit		57,028	37,554
Subsidies		284	
Selling, general and administrative expenses	7	(36,279)	(28,107)
Operating Income		21,033	9,447
Foreign exchange gains/(loss),net		(587)	(647)
Interest income		44	14
Interest expenses		(6,776)	(6,746)
Non-operating income/(expenses)	8	(98)	(958)
Other income/(expenses)	9	232	4,645
Profit before tax		13,849	5,754
Income tax expense	16	(1,547)	(122)
Profit for the year		12,302	5,633
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		(2,764)	(1,852)
Total comprehensive income/(loss) for the year		9,538	3,781
Profit attributable to:			
Owners of the Group		12,282	5,638
Non-controlling interests		20	(5)
		12,302	5,633
Total comprehensive income/(loss) attributable to:			
Owners of the Group		9,518	3,781
Non-controlling interests		20	–
		9,538	3,781

Vyacheslav Rekov
President

See accompanying notes to combined financial statements.

Combined Cash flow Statement
For years ended 31 December 2007, 2006

(in 000 EUR)	*Year ended 31 December 2007*	*Year ended 31 December 2006*
Cash flow from operating activities		
Profit before taxation	13,849	5,268
Adjustments for:		
Depreciation and amortization	5,729	7,161
Change in provision for bad and doubtful debts	3,332	1,154
Interest expenses	6,776	8,482
Operating cash flows before working capital changes	29,686	24,038
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(19,430)	(4,022)
(Increase)/decrease inventories	(10,352)	(1,143)
(Increase)/decrease prepayments	1,445	780
(Increase)/decrease taxes receivable	(352)	1,054
(Decrease)/increase in accounts payable	22,750	2,439
(Decrease)/increase in taxes payable	631	(618)
Cash provided from operations		
Interest paid	(6,637)	(7,728)
Income taxes paid	(1,379)	(166)
Net cash from operating activity	16,362	14,634
Investing activities		
Acquisition of property, plant and equipment and subsidiaries	(24,357)	(7,154)
Acquisitions of subsidiaries, net of cash acquired	(7,389)	–
Net cash from investment activity	(31,746)	(7,154)
Financing activities		
Dividends paid	(2,818)	(4,469)
Change in Equity	(15)	2,961
Change in borrowings	42,686	(4,096)
Net cash from financial activity	39,853	(5,604)
Net foreign exchange difference	(382)	(742)
Net increase in cash	24,087	1,134
Cash at beginning of the period	3,919	2,785
Cash at the end of the period	28,006	3,919

Vyacheslav Rekov
President

See accompanying notes to combined financial statements.

Consolidated Statement of Changes in Equity

For years ended 31 December 2007, 2006

(in 000 EUR)	*Share capital*	*Additional capital*	*Accumulated dividends*	*Retained earnings (deficit)*	*Foreign currency translation reserve*	*Total stockholders' equity*
Balance as of 31 December 2005	10	1,102	2,457	13,435	1,402	18,405
Declared dividends			1,250	(1,250)		–
Dividends paid			(3,554)			(3,554)
Net income for the period ended 31 December 2006				5,637		5,637
Accumulated funds				2,355		2,355
Currency Translation Adjustment		(115)	(152)		(1,852)	(2,119)
Balance as of 31 December 2006	10	987	(0)	20,177	(450)	20,724
Declared dividends			2,873	(2,873)		–
Dividends paid			(2,818)			(2,818)
Net income for the period ended 31 December 2007				12,282		12,282
Accumulated funds	8	1,495		(904)		599
Currency Translation Adjustment			(3)		(2,764)	(2,767)
Balance as of 31 December 2007	18	2,482	51	28,682	(3,214)	28,020

Vyacheslav Rekov
President

See accompanying notes to combined financial statements.

Notes to the combined financial statement
For years ended 31 December 2007, 2006
(in 000 EUR)

1. General

These combined financial statements include several companies (the Companies) ultimately owned by 1 Inc. During 2007–2008 the Companies were restructured to form a group (the Group). The Companies include:

- Milkiland B.V., the Netherlands, Since 13 July 2007
- Milkiland Corporation, Panama with subsidiaries

Milkiland B.V. is a company domiciled in the Reinwardtstraat 232, Amsterdam, the Netherlands. The company was incorporated on 13 July 2007. The objective of the Company is to act as a intermediate holding.

Milkiland Corporation was incorporated and domiciled in Panama on 18 August 1999. The Milkiland Corporation was formed as company limited by shares and had named Dairy Food Corporation, subsequently renamed to Milkiland Corporation.

The Parent Company issued its share capital on 18 August 1999. The Parent Company purchased a subsidiary, BKS Miltek, now DP Milkiland Ukraine that was incorporated in Ukraine on 9 December 1999. The Parent Company performs its main business activity through Milkiland Ukraine and its subsidiaries. Milkiland Ukraine is a dairy trade company.

In 2002 the Group acquired a control over three milk factories: JSC Sumsky molochniy zavod, Borsna MZ, Nosovka MZ.

In 2003 the Group acquired a control over JSC Mensky Syr, Myrhorod Syr, Lviv MK and DE Aromat consisting of six milk factories in Chernigiv, Sumy, Khmelnytsk and Kiev region.

In 2004 the Group acquired control over JSC Khladocombinat #4 Kiev and PE Prometey consisting of six milk factories in Khmelnytsk, Chernigiv and Lviv region.

In 2005 the Group acquired control over CSC Bilopilsky syrzavod, JSC Konotopsky molzavod, JSC Glukhiv maslosyrzavod, JSC Okhtyrsky syrkombinat", JSC Vasilevsky syrzavod, JSC Romensky molochniy kombinat in Sumy region.

In 2007 the Group acquired Moldim Ltd in Dnipropetrovsk region and JSC Transportnik in Kyiv, so as LTD Moloko Polissia, LTD Stugna-Moloko, LTD Trubizh-Moloko, JSC KMZ#1, JSC Chernigiv MZ, CSC Gorodnia MZ, LTD Iskra, LTD MKP Revers, LTD Agrosvit, LTD Molochni vyroby.

Acquired net assets and the amount exceeding acquired share in net fair value of identifiable assets and liabilities include

	Moldim Ltd Carrying amount at 1 April 2007	*JSC Tran-sportnyk Carrying amount at 1 April 2007*	*LTD Moloko Polissia Carrying amount at 31 December 2007*	*LTD Iskra Carrying amount at 31 December 2007*	*JSC Chernigiv MZ Carrying amount at 1 November 2007*	*CSC Gorodnia MZ Carrying amount at 1 November 2007*	*LTD MKP Revers Carrying amount at 1 October 2007*	*JSC KMZ#1 Carrying amount at 31 October 2007*	*LTD Agrosvit Carrying amount at 31 December 2007*
Purchased net assets									
Equipment, cost-net	638	106	880	816	1,289	168	44	464	219
Inventories	336	–	548	606	763	26	53	975	172
Trade accounts receivable	310	158	13	95	6,657	360	90	1,494	21
Taxes receivable	23	11	245	29	118	339	1	208	–
Cash and cash equivalents	14	53	81	10	138	104	19	165	5
Trade accounts payable	(1,041)	(153)	(745)	(238)	(1,301)	(163)	(76)	(3,859)	(48)
Other accounts payable	(1,276)	–	–	(182)	(6,266)	–	–	–	(52)
Taxes payable	(24)	(24)	(5)	(81)	(50)	(19)	(93)	(139)	(1)
Cost of acquired net assets	(1,020)	151	1,017	1,055	1,348	815	38	(692)	316
Remunerations due to acquisition	2,253	2,256	573	69	7,115	423	203	3,628	98
Net of cash and cash equivalents of acquired company	(14)	(53)	(81)	(10)	(138)	(104)	(19)	(165)	(5)
Cash outflow due to acquisition	2,239	2,203	492	59	6,977	319	184	3,463	93

Combined financial statements include financial statements of Milkiland Corporation and subsidiaries stated below for the year 2007 and one preceding year.

	% of equity interest
DE Borznyanskiy molzavod	100.0
LTD Mirgorodsky syrorobny kombinat	100.0
DE Milkiland Ukraine	100.0
LTD Molgrup	100.0
DE Aromat	100.0
PE Prometey	100.0
PE Ros’	100.0
LTD Molprod	100.0
LTD Syr-Trading	100.0
LTD UMD	100.0
LTD Molochny pan	100.0
LTD Magazyn Moloko	100.0
LTD Moloko Polissia	70.0
LTD Malka-trans	100.0
JSC Transportnyk	70.3
LTD Moldim	100.0
LTD Stugna-Moloko	100.0
LTD Trubizh-Moloko	100.0
LTD Iskra	68.0
JSC KMZ#1	100.0
JSC Chernigiv MZ	76.0
CSC Gorodnia MZ	91.4
LTD MKP Revers	100.0
LTD Agrosvit	76.0
LTD Lvivskiy molochniy kombinat	38.0
LTD Molochni vyroby	100.0

On the date of this report LTD Lvivskiy molochniy kombinat is under the procedure of liquidation. Taking into consideration that the share of the Group in this entity is 38 per cent., a 100 per cent. reserve was counted for all assets and liabilities of LTD Lvivskiy molochniy kombinat, as well as for all investments of the Group in LTD Lvivskiy molochniy kombinat.

Business

The milk factories are located in Chernigiv, Kyiv, Ternopil, Lviv, Sumy, Poltava, Dnipropetrovsk and Khmelnytsk region of Ukraine. The main factories are Mensky Syr, Romensky MK and Myrgorod SK, which are located in Chernigiv, Sumy and Poltava regions accordingly. The factories purchase milk from local farmers and produce cheese, butter, powdered milk and casein, which are sold mainly in Ukraine and Russian Federation.

2. Applying new IFRS

In 2007 Group has applied all new and revised standards and interpretations issued by Committee of International Financial reporting Standards (CIFRS) and Committee on Interpretations of International Financial reporting Standards (CIIFRS) related to its transactions during reporting periods since 1 January 2007.

The adoption of IFRIC 8 "Scope of IFRS 2" ("IFRIC 8"), IFRIC 9 "Reassessment of Embedded Derivatives" ("IFRIC 9") and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" ("IFRIC 11") effective 1 January 2007 did not have a material effect on the financial statements of the Group.

Effective 1 January 2007 the Group adopted IFRS 7 "Financial instruments: Disclosures" ("IFRS 7") and Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" ("IAS 1"). New IFRS 7 introduces new disclosures to improve the information about financial instruments. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital.

Management believes that applying those standards and interpretations did not effect significantly to the Group's financial statements.

The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing this financial statement:

IFRS 8 "Operating Segments" ("IFRS 8"), which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 "Segment reporting". The standard requires an entity to adopt the "management approach" to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operations segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

Amendment to IAS 23 "Borrowing costs" ("IAS 23"), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1"), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS I is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

IFRIC 12 "Service Concession Arrangements" ("IFRIC 12") which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13") which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses whether the entity's obligations to provide free or discounted goods or services in the future should be recognized and measured, and if consideration is allocated to the award credits how much should be allocated to them, when revenue should be recognized and, if a third party supplies the awards, how revenue should be measured.

The Group's management intends to apply these standards and interpretations since they come into force. The management is studying the effect these standards and interpretation may have upon the Group's financial condition and operating results.

3. Presentation of financial statements

Basis of presentation

The accompanying combined financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). Financial accounting of the Group's companies is carried out according to the legislation and Ukrainian National Accounting Standards (further in the text – NAS). Effective in Ukraine NAS differ from generally accepted principles and standards of IFRS. Respectively, some changes and amendments were made to the combined financial statements in order for them to comply with IFRS.

These combined financial statements are prepared on the historical cost basis.

Functional and presentation currencies

The combined financial statements (further the "financial statements") have been prepared on a historical cost basis, except for land and buildings, which have been measured at fair value. The amounts in these financial statements are disclosed in Euro (EUR).

For translation of all amounts in balance sheet (except equity) into EUR were used the following rates UAH/EUR:

As at 31 December 2006 – 6.6509

As at 31 December 2007 – 7.4341

Profit and loss accounts were translated using averaged rates:

for year 2006 – 6.3494

for year 2007 – 6.9352

Equity was translated from UAH using historical rates.

Material estimates and assumptions

Preparation of IFRS combined financial statements demands from the Group management development of estimates and assumptions that effect assets and liabilities, income and expenses of the Group stated in the financial statements as well as contingent assets and liabilities. Due to inaccuracy inherent to such estimates and assumptions factual results included to statements of future periods might differ from these estimates.

4. Significant accounting policies

Consolidation and combination principles

Combined financial statements include financial statements of Milkiland Corporation and other companies where the Group directly or indirectly has majority of voting shares or control such a company in another way. The Group management considers that presentation of combined financial statements is necessary in order to achieve overall presentation of financial position and operating results of the Group.

Financial statements of subsidiaries are prepared for the same reporting periods as the parent company. When, necessary, adjustments were included in the financial statements of subsidiaries in order for the accounting policies to comply with those of the Group.

Shares of minority shareholders in net assets of combined subsidiaries are reflected in the reporting independently from the Group equity. The minority shareholders share is initially computed proportionally to their share in the fair value of net assets, liabilities and contingent liabilities at the date of a subsidiary acquisition. Minority shareholders shares at the end of the reporting period include shares of mentioned shareholders at the date of initial merger of the companies and minority shareholders' shares in changes in equity after that date. Losses exceeding the minority shareholders, share in the equity of a subsidiary are reported as losses of the Group except for the cases when minority shareholders are obliged and have the opportunity to contribute additional funds to the equity of subsidiaries in order to cover incurred losses.

Acquisition of subsidiaries is accounted for at the acquisition method. Acquisition cost is defined by total fair value of assets, undertaken liabilities and/or shares issued by the group at the date of acquisition in exchange for the control over the company being acquired plus any direct acquisition costs. Identifiable assets, liabilities and contingent liabilities of the company being acquired that meet the terms of reflection in accordance with IFRS 3 are reported at the fair value at the acquisition date except for non-current assets (or group of assets subject to disposal) classified as those held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", which are recognized and assessed at the fair value net of sales expenses.

Financial results of acquired or disposed during a year subsidiaries are included into the combined Income statement starting from the acquisition date or up to the date of sales respectively.

All intragroup transactions, relevant balances and unrealized income and losses from transactions have been eliminated from the combined financial statements.

Investments in affiliates

Affiliate is a company upon which the Group has a significant effect and is neither subsidiary nor a joint venture. Significant effect is participation in development of financial and economic policy, but not full control or joint activity in such processes. Assets and liabilities as well as financial results of subordinate companies are included in these financial statements under the equity method except when investments are classified as considered for sale and accounted under IFRS 5. Under the equity method financial investments to affiliates are stated in the combined balance sheet at acquisition cost including adjustment of changes share in the Group in net assets of an affiliate after acquisition less impairment amount. Losses of an affiliate exceeded investments of the Group in such enterprise (including all long-term investments that are the part of the General Group's investments to such company) are not recognized in the Group's combined reporting.

Excess of acquisition cost over the cost of the Group's share in fair value of identified assets, liabilities and commitments of an affiliate at the acquisition date are recognized as the goodwill. The goodwill is included into the carrying amount of investments to an affiliate and analyzed as for impairment. Any exceeding Group's share in fair value of assets, liabilities and commitments of an affiliate after revaluation over acquisition cost and immediately recognized in the income statement.

Non-realized income and losses resulted from transactions with an affiliate are to be excluded proportionally to equal share of the Group in capital of affiliates except when non-realized losses testify to impairment of a transferred asset.

Goodwill

Goodwill as a result of a subsidiary acquisition is recognized as an asset and assessed as the amount exceeding the acquisition cost over the group's share in the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary or affiliate at the acquisition date. Goodwill as a result of an affiliate acquisition is included in the carrying amount of investments to an affiliate. Goodwill is initially recognized as an asset during the primary evaluation, which is further adjusted to the impairment amount.

For the impairment testing the goodwill is allocated to each cash generating structural unit of the Group it relates. Cash generating units to which the goodwill is distributed are subject to testing for impairment each year or even more often whenever the indications of their impairment appear. If the recoverable amount for a cash generating unit is less than its current amount losses from impairment are initially reported in the goodwill related to this unit and then in the rest of assets of this unit proportionally to their carrying amount. Goodwill impairment losses cannot be recovered during the following periods.

Recoverable amount of cash generating units is defined on the basis of calculation of their utilization cost in the company economic activity. Key assumptions are discount rates, growth indexes, estimated changes in sale prices and direct costs for the period. The Management estimates discount rates applying rates before taxation reflecting current market expectation as to the cost of money in time and specific risk related to the cash generating units. Growth indexes are based on growth forecasts with respect to a branch as a whole. Changes in sale prices and direct expenses are based on previous experience and expectations regarding future changes in the market.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for the financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets and IAS 38 (revised) Intangible Assets.

Adoption of IFRS 3 and IAS 36 (revised) has resulted in the Group ceasing annual goodwill amortization and commencing testing for impairment at the cash generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested mote frequently) from January 2005.

Property, plant and equipment

Equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of spare parts of the equipment when that cost is incurred, if the capitalization criteria are met.

Land and buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Revaluations are performed frequently enough to ensure that the fair value of a revaluated asset does not differ materially from its carrying amount.

Revaluation surplus is attributable to increase of revaluation assets fund that is included in capital of the balance sheet except when such surplus restores decreasing cost of this asset resulted from the previous revaluation if negative revaluation of such asset was recognized in the income statement. In the latter case increase of the asset's cost is recognized in the income statement. Loss from revaluation is recognized in the income statement except when loss directly decreases positive revaluation of the same asset that was previously recognized in the capital in the balance sheet. In the latter case negative revaluation is referred to decrease of fund of assets revaluation.

The difference between amortization calculated on the basis of revalued carrying amount of an asset and amortization calculated on the basis of primary cost of an asset is transferred annually from fund of assets revaluation to retained earnings. Besides accumulated amortization at the revaluation date is excluded with simultaneous reducing gross carrying amount and then net amount surpluses to revaluated cost of the asset. During disposal of an asset the revaluation fund referred to certain asset sold is transferred to the retained earnings.

Construction in progress includes expenses related directly to construction of fixed assets including accompanying re-allocation of variable overheads related directly to cost of construction. Amortization of such assets as well as other items of property is begun since put into operation.

Income or loss resulted from disposal of any asset estimated as difference between sale profit and depreciated cost of an asset is stated in the income statement.

During each capital repair relevant costs are recognized as cost of equipment if all criteria of capitalization of costs are observed.

Write off of fixed assets from the balance sheet is carried out during retirement or when in future there are no economic benefits from using or retirement of such asset. Income and losses resulted from write off of the asset (calculated as difference between net proceedings from retirement and carrying amount of asset) is included in the income statement for the reporting period when the asset was written off.

Depreciated cost and useful life as well as the amortization methods are revised and adjusted if necessary at the end of each financial year.

Expected useful lives for key groups of property, plant and equipment are the following:

Groups of property, plant and equipment	*Useful lives, years*
Buildings and constructions	20–40
Machines and equipment	4–7
Other	1–6

Investment properties

Investment properties are measured initially at cost, including acquisition, construction costs and other related expenses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the capitalization criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value less accumulated amortization and losses from impairment of assets.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to the investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible assets

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Non-current assets held for sale

Non-current assets held for sale are classified as such when their cost is to be compensated by sale of these assets but not further exploitation. This term can be fulfilled when assets are ready to immediate sale and they will be sold for sure. Management should have intention to sale such assets during one year.

Non-current assets classified as assets for sale are stated at lower of current and fair cost sale less sale expenses.

Inventories

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

Finished goods are valued at the FIFO method. Average-weighted cost method is used for accounting other inventories.

Cost includes acquisition costs and the costs related to inventories delivery to their location and bringing to the working condition. Cost of the inventories manufactured and production in progress includes appropriate overheads in the ordinary activity of the Group.

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

Financial instruments

Financial instruments reported in the Group's combined balance sheet include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus expenses from bargain except financial instruments estimated at fair value recognized in the income statement. Financial instruments are stated in balance sheet at the moment of bargain in respect of appropriate financial instrument. Valuation order of financial instrument will be considered below.

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

Financial investments

Financial investments can be classified in the following way:

Investments held-to-maturity;

Financial assets at fair value through profit or loss;

Available for sale

Financial investments to debt securities with fixed income and mature date which the Group intends to sell and is able to hold till mature except for loans provided and receivables of the Group are classified as "held-to-maturity investments". Financial investments held to maturity are accounted for at amortized cost using effective interest rate method less impairment reserve. Amortization of discount or premium when securities "held-to-maturity" are acquired is recognized as interest income during the term of repayment. Securities held to maturity are stated as capital assets except when repayment is expected during 12 months after the reporting date.

Financial investments assessed at fair value with recognition of change in the income statement include investments for sale and investments classified at primary recognition as instruments reported in the accounting at fair value with its change recognition in the income statement.

Any other financial investments except for loans and receivables of the Group are classified as "available for sale".

Financial investments assessed at fair value with recognition of changes in the income statement as well as financial investments available for sale are stated further in the balance sheet at fair value calculated on the basis of market quotation at the date of financial statements excluding operating expenses that might be resulted from the sale or retirement. Income and expenses related to changes of fair value of securities accounted for at the fair value with recognition of changes in the income statement are stated in the income statement for the period. Income or losses received at revaluation of fair value of investments available for sale are stated as provision for revaluation of investments as equity up to their retirement. At that accumulated profits or losses previously recognized in the equity are stated in the income statement.

When reducing fair value of investments for sale was reported in the equity but some objective factors had appeared that confirm impairment of investments then accumulated loss stated in the capital should be referred to losses in the income statement even if there were no retirement of investments.

Financial investments without quotations in an active market and which fair value can not be estimated reliably are stated on the basis of the acquisition cost.

Loans provided

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash in banks and cash desks, bank deposits and high liquid contributions with mature up to three months that can be easily converted to respectful cash funds and which change risk is not significant.

Credits and loans received

All credits and loans are initially recognized at fair value of received amount less expense related to receiving. After primary recognition interest bearing credits and loans are assessed at amortized cost under the effective interest rate method. Financing costs including premiums paid during settlements or repayment are accounted under the accrual method and added to the current carrying amount of an instrument if they were not paid in the period when they incurred. Income and expenses are recognized in the income statement when liabilities are derecognized as well as during amortization process.

Trade and other payables

Trade and other payables are stated at nominal cost.

Lease

Lease of fixed assets, when the Group obtains all significant risks and profits resulted from property right, are classified as the financial lease. All other types of lease are classified as the operational lease.

Rental payments under operational lease agreements are transferred to financial results in the respective period.

Assets under financial lease agreements are recognized as the Group's assets at fair value at the acquisition date or at cost of minimal lease payments at the same date if they are lower than fair value of an asset. Respective liabilities to a leaser are stated in the combined balance sheet as financial lease liabilities. Financing costs – difference between total lease liabilities and fair value of acquired assets are referred to financial results during a lease term in order to provide constant interest rate at depreciated cost of liabilities for each accounting period.

The assets under financial lease agreements are amortized during estimated useful life or during a lease term if this term is shorter. If there is assurance that the leaser obtains property right for leased assets before the end of the lease term then amortization of assets is calculated during the useful life.

Net investments to the financial lease are gross investments to the financial lease less non-received financial income.

Gross investments to lease are minimal payments in the financial lease from point of view of a lessor and any non-guaranteed depreciated cost. Minimal lease payments are the payments during the whole lease term which a leaser is liable to fulfill net payments of services and taxes paid by a lessor under compensation terms.

Non-received financial income is calculated as difference between gross investments to lease and their discounted cost.

Interest rates considered in the lease agreement is a discounted rate when at the beginning of a lease term total discounted cost of minimal rental payment from the point of view of a lessor and non-guaranteed depreciated cost is equal to the fair value of a lease object.

Non-guaranteed depreciated cost is a part of depreciated cost of a leased asset towards which a lessor does not have guarantees or has guarantees only from the related party.

Fair value of an asset transferred to the financial lease is the amount obtainable from an asset exchange or sufficient for repayment of liabilities between the parties that are well-informed and having an intent to perform such operation.

Provision for probable losses from the financial lease are recognized in the income statement and accounted for as reducing investments to the financial lease.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Trade revenue is stated at fair value less discounts and other taxes.

Financial lease

Revenue recognized when the financial lease has been commenced is reported at the fair value of an asset or, if it is lower, at the current cost of minimal rental payments calculated at the effective interest rate of compensation. Financial income is allotted to the financial lease term so that to provide for constant rate of return to unpaid balance of net investment. Financial lease income is not recognized when delinquency of lease payments comprises over 60 days.

Operating lease

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

Interest income

Interest income is recognized in the period it has been gained based on the principal debt amount and the effective interest rate resulting during discounting the future cash inflow to the current cost of a respective asset.

Dividend income

Dividend revenue is recognised when the shareholders' right to receive the payment is established.

Other services

Revenue from sale of services is stated in the period when such services were rendered after completion concreted transaction estimated on the basis of factually rendered service proportionally to a full scope of services that are to be rendered.

Borrowing costs

Borrowing costs are recognized as expenses when they incurred.

Foreign currency transactions

Ukrainian hryvnya is the functional currency. Transactions in currencies other than hryvnia are treated as foreign currency transactions.

Foreign currency transactions are stated under the rate effective at the date of transaction. Monetary assets and liabilities denominated in foreign currency are recalculated at the exchange rate at the reporting date. All exchange differences are stated in the combined income statement.

Non-monetary items are assessed on the historical cost in foreign currency, recalculated under rates valid at primary date.

Impairment of assets

At each reporting date the Group assesses carrying amount of property, plant and equipment as well as intangible assets in order to find out whether any evidences for impairment of assets exist. If so, recoverable cost of assets is calculated in order to assess impairment loss (if such is available). When it is not possible to assess recoverable cost of an asset the Group estimates recoverable cost of unit generating cash flows where such asset is attributable.

Recoverable amount is assessed as the higher index of fair value of an asset less sale costs and cost generating from using in economic activity of the Group. While assessing cost of using supposed cash flow is discounted to current value using rates before taxation that indicated current market value of cash and inherent specific risks to this asset.

If recoverable amount of an asset (or cash generating unit) according to estimations indexes is less than the current amount then the current amount of an asset (cash generating unit) should be discounted to this index.

Impairment losses are recognized in the income statement except when impairment is referred to assets stated at revaluation cost when impairment amount is referred to revaluation reserve.

If impairment losses are recovered in future period current value of asset (cash generating unit) should be increased to new recoverable amount but in such a way that recoverable amount of such asset does not exceed discounting cost in previous periods. Recoverable impairment amount is recognized in the income statement except when impairment is referred to assets stated at revaluation cost when recoverable impairment amounts are referred to revaluation reserve.

Value added tax (VAT)

VAT during sale should be paid to the tax authorities during receiving payment from customers. VAT paid during acquisition of goods and services is to be deducted to VAT received during sale when payment is made for purchased goods and services. Tax authorities are allowed to offset VAT. VAT in respect of acquisitions and sales when settlement is completed at the balance sheet date (deferred VAT) is stated in the balance sheet by separate amounts as current assets or liabilities. If the provision was formed to receivables this provision is reported in full measure including VAT. Deferred liability on VAT is still recognized in the financial accounting until receivables are repaid or written off in order provided by the financial accounting rules.

Income tax

Income tax is calculated in accordance with the Ukrainian legislation. Tax is calculated on the basis of financial results for the current year adjusted to income and expenses excluded during calculation of this tax.

Deferred income tax requirements and liabilities are provided using the balance sheet liability method for the temporary differences arising between the tax bases and the data for financial reporting purposes. Deferred tax liabilities are generally recorded using all temporary differences that increase taxable income and deferred tax requirements are stated including future income appropriate to use appeared tax requirements. The Group accounts deferred tax requirements and liabilities when they are referred to income taxes withdrawn by the same tax body and the Group intends to offset future tax requirements and liabilities.

Deferred taxes are calculated under rates that should be applied in the sale period of an asset or repayment of indebtedness. They are stated in the income statement except when they relate to items directly related to equity; in this case they are stated in the equity.

Benefits to employees

Salary, social security expenses, vacations, hospital services, premiums and non-monetary payments are accrued in the period when such benefits were provided to the Group's staff.

Pension provisions

The Group's operating enterprises contribute to the pension Fund of Ukraine, medical and social insurance funds for all their employees. These contributions are reported in financial results in the period they were incurred.

Dividends

Dividends are stated at the date when they are declared by shareholders in the general meeting. Amount of the Group's retained earnings that under the current legislation can be transferred to allocation between shareholders is calculated on the basis of respective financial statements of separate companies of the Group prepared under NAS. These amounts might differ from those calculated under IFRS.

Provisions

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

Governmental subsidies

Governmental subsidies are recognized when there is reasonable assurance that they are to be received and all accompanying terms fulfilled. If subsidy is provided in order to finance certain expenses it should be recognized as income in the same periods as respectful expenses that it should compensate on a regular basis. If subsidy is issued in order to finance an asset then it is recognized as deferred income. If the Group receives subsidies in non-monetary form then assets and subsidy are accounted at nominal cost and stated in the income statement during assumed useful life of an asset by equal annual parts.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

5. Sales

	Year ended 31 December 2007	*Year ended 31 December 2006*
Other products	4,062	7,696
Ice-cream	2,032	1,883
Monolith butter	9,771	7,946
Packaged butter	4,606	5,812
Cheese	73,300	55,621
Dry milk products	47,089	18,614
Whole-milk products	24,079	15,923
Total	164,939	113,495

Net sales except VAT can be divided as follows:

Domestic	85,728	64,571
Export	79,211	48,924
	164,939	113,495

Export sales except VAT are divided as follows:

	Year ended 31 December 2007		*Year ended 31 December 2006*	
Country	*Sum of net sales*	*Sum of net sales*	*Sum of net sales*	*% of export sales*
Russia	47,640	60.14%	35,963	73.51%
Holland	12,394	15.65%	5,395	11.03%
Kazakhstan	7,037	8.88%	5,022	10.26%
Azerbajan	372	0.47%	621	1.27%
Denmark	5,237	6.61%	542	1.11%
Turkey	134	0.17%	–	0.00%
Lithuania	721	0.91%	–	0.00%
Moldova	185	0.23%	–	0.00%
USA	239	0.30%	–	0.00%

Country	Year ended 31 December 2007 Sum of net sales	Year ended 31 December 2007 Sum of net sales	Year ended 31 December 2006 Sum of net sales	Year ended 31 December 2006 % of export sales
Singapore	3,810	4.81%	–	0.00%
France	260	0.33%	–	0.00%
Belorussia	237	0.30%	–	0.00%
Germany	947	1.20%	–	0.00%
Other	–	0.00%	1,381	2.82%
Total	79,213	100%	48924	100%

6. Cost of goods sold

	Year ended 31 December 2007	Year ended 31 December 2006
Other products	7,968	6,609
Ice-cream	1,718	959
Monolith butter	9,379	6,776
Packaged butter	2,719	4,957
Cheese	46,763	32,985
Dry milk products	23,376	12,666
Whole-milk products	15,988	10,989
Total	107,911	75,941

7. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2007, 2006 are as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Wages and salaries	6,389	4,565
Depreciation	5,729	5,696
Representative charges	5,463	5,331
Doubtful debts	4,294	78
Utilities	2,627	2,155
Property, plant and equipment rent	2,507	2,006
Taxes and other charges	2,305	1,964
Marketing and advertising	2,167	2,625
Bank commission	1,469	982
Service of security and other	790	721
Transportation	780	694
Legal service	558	400
Auditing service	385	144
License fees	384	360
Communication	351	314
Office supplies	81	72
Total	36,279	28,107

8. Non operating income and expenses

Non operating income and expenses for the years ended 31 December 2007, 2006 are as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Other compensation	234	93
Writing off account payables	47	-
Result of correction of prior year errors	20	(236)
Fines and penalties	4	87
Assets received for free	1	(84)
Net income from sales of other current assets	–	45
Dividends received	–	407
Bad debts written off	–	–
Impairment of assets	(82)	(1,270)
Other losses	(322)	–
	(98)	(958)

9. Other income (expenses)

Other income (expenses) for the years ended 31 December 2007, 2006 are as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
A profit from realization of foreign currency, net		
Other profits from financial operations	169	4,020
Profit from realization of financial investments, net	23	140
Net income/(loss) from sales of non-current assets	–	(56)
Other profits from ordinary activity	40	956
Obsolescence of inventories	–	(415)
Total	232	4,645

Other profits from financial operations represents other income from transactions related to transfer of assets (chattes, real estate, receivables, payables, tax settlements) from members of the Group, subsequently shut down.

10. Minority interests

Minority interest relates to legal entities, which were out of operations in stage of closing down the activities (Nezhin GMZ, Sumy MZ, Laktis). The shareholders decide to close its activities due to loss making during 2003 – 2006 years. Finally these entities were closed in 2006 resulting to income due to positive capital in process of liquidation. All necessary actions were agreed with government authorities and all creditors and minorities shareholders were paid in full.

	31 December 2005	*Minority's share of the financial result*	*Change of minority's share due to closing activities*	*31 December 2006*	*Minority's share of the financial result*	*Change of minority's share due to including activities*	*31 December 2007*
Borznansky mz LTD	(18)	–	17	–	–	–	–
JSC Tetiev mz	23	–	(21)	–	–	–	–
LTD Moloko Polissia	–	–	–	–	67	260	305
JSC Transportnyk	–	–	–	–	(17)	43	24
LTD Iskra	–	–	–	–	36	325	338
JSC Chernigiv MZ	–	–	–	–	(93)	495	375
CSC Gorodnia MZ	–	–	–	–	–	74	69
LTD Agrosvit	–	–	–	–	26	55	75
Total	6	–	(6)	–	27	1,720	1,747

11. Dividends paid and proposed

	Year ended 31 December 2007	*Year ended 31 December 2006*
Dividends declared for year on ordinary shares	*	3,138
Dividends declared in year on ordinary shares	2,873	1,250
Paid dividends on ordinary shares	2,818	3,554
Accumulated dividends	55	–

* Dividends for the year 2007 were not counted.

12. Property, plant, equipment and intangible assets

	Land and buildings	*Plant and equipment*	*Constructions in progress*	*Intangible assets*	*Other assets*	*Total*
Acquisition cost						
31 December 2005	30,867	11,574	1,835	89	10,791	55,156
additions	841	2,497	5,346	27	1,879	10,589
disposals	(1,614)	(80)	–	(7)	(1,240)	(2,941)
transfers	–	–	(5,891)	–	–	(5,891)
Foreign currency translation	(3,183)	(1,316)	(167)	(10)	(1,154)	(5,830)
31 December 2006	26,911	12,674	1,123	99	10,276	51,083
additions	15,618	9,200	5,555	25	–	30,398
revaluating of assets*	566	–	–	–	–	566
disposals	–	–	(441)	–	(2,451)	(2,892)
transfers	–	–	–	–	–	–
Foreign currency translation	(3,884)	(1,953)	(462)	(12)	(918)	(7,228)
31 December 2007	39,211	19,922	5,776	111	6,906	71,927
Accrued depreciation						
31 December 2005	(3,362)	(1,118)	–	(32)	(3,097)	(7,610)
Depreciation charge	(2,620)	(381)	–	(11)	(2,684)	(5,696)
Released on disposals	3,204	599	–	1	125	3,929
Foreign currency translation	324	107	–	4	439	873
31 December 2006	(2,453)	(793)	–	(39)	(5,217)	(8,503)
Depreciation charge	(3,773)	(6,683)	–	(7)	3,356	(7,106)
Released on disposals	–	–	–	–	–	–
Foreign currency translation	512	532	–	5	324	1,373
31 December 2007	(5,714)	(6,945)	–	(41)	(1,537)	(14,236)
Net cost	24,458	11,881	1,123	60	5,058	42,580
31 December 2006	24,458	11,881	1,123	60	5,058	42,580
31 December 2007	33,497	12,977	5,776	71	5,370	57,691

* In 2007 the independent evaluating of "Romensky molochny kombinat" and "Ahtyrsky syrkombinat" was performed by Bureau Veritas. Amount of additional value in comparison with balance value accounted of USD 832 705.

13. Inventories

	Year ended 31 December 2007	Year ended 31 December 2006
Raw materials (at cost) and Production in process	13,790	6,090
Finished goods (at net realisable value)	5,164	4,302
Total	18,954	10,392

14. Trade and other receivables

	Year ended 31 December 2007	Year ended 31 December 2006
Trade accounts receivable	16,885	5,831
Advances paid	3,438	4,882
Advances paid for fixed assets	249	–
Other account receivable	7,905	720
Promissory notes	–	466
Less – doubtful debts	(6,101)	(3,345)
Total	22,376	8,554

15. Cash and cash equivalents

Cash at bank is available for demand and earns interest at floating rates based on dayly bank deposit rates

	Year ended 31 December 2007	Year ended 31 December 2006
Bank accounts in USD	346	5
Bank accounts in EUR	25,172	2
Bank accounts in UAH	2,488	3,912
Total	28,006	3,919

16. Income tax

	Year ended 31 December 2007
Profit before income tax and minority interests	13,849
Implied tax charge at statutory rate of 25%	3,462
Tax effect of non-deductible income and expenses	(1,915)
Income tax expense	1,547
Deffered tax assets	5,884
Reserve of tax assets	(1,674)
Deferred tax liabilities	(4,210)
Total	–

17. Taxes receivable

	Year ended 31 December 2007	Year ended 31 December 2006
VAT	2,612	3,670
Income tax	34	243
Other taxes	1,283	111
Total	3,929	4,024

18. Accounts payables

	Year ended 31 December 2007	*Year ended 31 December 2006*
Trade accounts payable	7,099	2,416
Advances received	256	2,869
Accounts payable on the operations security-related	–	2,258
Accounts payable for fixed assets	716	–
Other accounts payable	20,739	2,324
Total	28,810	9,867

Trade payables are non-interest bearing and are normally settled in 60-days terms.

19. Taxes payable

	Year ended 31 December 2007	*Year ended 31 December 2006*
VAT	25	174
Income tax	439	55
Other taxes	872	430
Total	1,336	659

20. Interest bearing loans and borrowings

Bank loans as of 31 December 2007 consisted of the following:

Company name	*Bank*	*Currency*	*Maturity date*	*Interest rate*	*Amount in original currency*	*Outstanding balance*	*Collateral*
Long-term:							
DE “Milkiland – Ukr”	JSC DEIB	EUR	30.04.2012	12,76%	1,555	1,552	Chattel and real property
DE “Milkiland – Ukr”	JSC DEIB	USD	11.09.2013	11,18%	9,862	6,699	Chattel and real property
DE “Milkiland – Ukr”	JSC DEIB	USD	31.08.2014	10,83%	5,969	4,055	Chattel and real property
DE “Aromat”	JSC DEIB	USD	31.08.2014	10,83%	7,223	491	Chattel and real property
DE “Aromat”	JSC UPB	UAH	25.12.2009	18,50%	7,305	983	Chattel and real property
PE “CC “Prometey”	JSC DEIB	USD	31.08.2014	10,83%	733	498	Chattel and real property
PE “CC “Prometey”	JSC UPB	UAH	28.03.2010	18,50%	20,000	2,690	Chattel and real property
PE “Ros”	JSC DEIB	USD	11.09.2013	11,18%	15,715	10,675	Chattel and real property
LTD “Molprod”	JSC DEIB	USD	31.08.2014	10,83%	1,626	1,105	Chattel and real property
LTD “MalKa-Trans”	JSC DEIB	USD	11.09.2013	11,18%	8,208	5,576	Chattel and real property
LTD “Syr-Trading”	JSC DEIB	USD	31.08.2014	10,83%	1,228	834	Chattel and real property
LTD “UMD”	JSC DEIB	USD	31.08.2014	10,83%	1,227	834	Chattel and real property
LTD “Molochny pan”	JSC DEIB	USD	31.08.2014	10,83%	331	225	Chattel and real property
LTD “Moldim”	JSC CB Nadra	USD	29.05.2011	12,00%	59	40	Chattel and real property
LTD “Iskra”		UAH			110	15	Chattel and real property
JSC “Chernigivsky GMZ”	JSC CB Nadra	UAH	13.12.2010	19,50%	1,839	247	Chattel and real property
ALTD “Agrosvitг”		UAH			384	52	Chattel and real property
						36,570	
Current portion of long-term:							
LTD “Mirgorodsky SK”	JSC UGB	UAH	to 31.12.08		21,000	2,825	Chattel and real property
DE “Milkiland – Ukr”	JSC DEIB	EUR	to 31.12.08	12,76%	448	447	Chattel and real property
JSC “Chernigivsky GMZ”	JSC UPB	UAH	to 31.12.08	19,50%	42,000	5,650	Chattel and real property
PE “CC “Prometey”	JSC UPB	UAH	to 31.12.08	18,50%	20,000	2,690	Chattel and real property
DE “Aromat”	JSC UPB	UAH	to 31.12.08	18,50%	32 ,620	4,388	Chattel and real property
DE “Milkiland – Ukr”	JSC DEIB	USD	to 31.12.08	11,18%	10,138	6,887	Chattel and real property
						22,886	

Company name	Bank	Currency	Maturity date	Interest rate	Amount in original currency	Outstanding balance	Collateral
Short-term:							
DE "Milkiland – Ukr"	JSC DEIB	USD	26.10.2008	10,83%	14,553	9,886	Not provided
PE "Ros"	JSC DEIB	USD	31.08.2014	10,83%	642	436	Not provided
LTD "Molgrup"	JSC DEIB	USD	31.08.2014	10,83%	1,256	853	Own equipment
LTD "MalKa-Trans"	JSC DEIB	USD	11.09.2013	11,18%	421	286	Chattel and real property
LTD "Iskra"		UAH			1,243	167	Chattel and real property
LTD "Moldim"	JSC DEIB	UAH	07.12.2007	17,00%	54	7	Chattel and real property
"Milkiland Corp"		USD	31.12.2008	no %	5,095	3,461	
						15,097	
	–	–	–	–	–	74,553	–

21. Issued capital and reserves

As at 31 December 2007 the authorized share capital of the Milkiland B.V. consisted of 90,000 ordinary shares with A nominal value of EUR 1 each, amounting to EUR 90,000. A number of 18,000 ordinary shares were issued and paid up upon incorporation. 72,000 shares had been paid-up by the Shareholder and were at the process of issuing (EUR 500 were paid-up in July 2007 and EUR 71,500 were paid-up in September 2007). This increase of share capital occurred on 17 January 2008. At 31 December 2007, 1, Inc. (Saint Vincent and the Grenadines) was an only shareholder of Milkiland B.V.

The authorized, issued and paid up share capital of Milkiland Corporation amounts to USD 10,000 divided in 100 ordinary shares with a nominal value of USD 100 each.

At 31 December 2007, 1, Inc. (Saint Vincent and the Grenadines) was as shareholder of Milkiland Corporation and owned 100 shares.

Recalculation adjustment appears during translation of financial statements and results of subsidiaries, which account for their activity in currency of a parent company, in US dollars.

22. Related party disclosure

During the reporting period the Group did not have any significant related party transactions. Immaterial related party turnovers were carried out at market prices.

The Group does not act as guarantor of the debt or any other liabilities of related parties.

Related party disclosure refers to all periods presented herein.

23. Financial risk management objectives and policies

Main financial instruments of the Group are bank loans, overdrafts, cash. Primary objective of financial instruments is attraction of funds to perform transactions. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Main risks effecting upon the financial statements results are the risk of current interest rates change, liquidity risk, exchange risk and risk of loans non-repayment. The Group management considers and carries out a policy of management of the risks stated below.

Cash flow interest rate risk

The Group considers the risk of market interest rate change with respect to long-term liabilities with variable interest rate. The Group policy is aimed at attraction of mixed loans with both fixed and variable rates.

Foreign currency risk

Due to significant transaction volumes in Ukraine the Group can be affected by the exchange rate of US dollar towards Ukrainian hryvnia. The Group is sensitive to the effect of the exchange rate change borrowing in other that UAH currency.

The Group performs currency transactions as well. These transactions include: acquisitions and sales in currency rather than the reporting one – hryvnia. About 50 per cent. sales proceeds of the Group are collected in currency rather than the reporting currency while almost 95 per cent. of costs are carried out in UAH. The Group tries to use forward currency contracts and borrow in currency of sales proceeds recovery that enables to reduce influence of exchange rates fluctuation.

Credit risk

The Group is dealing only with checked solvent independent buyers. It is the Group's policy that all clients for shipment on delay of payment terms, are subject to credit checks.

24. Subsequent events

In the period from 1 January 2008 to 23 June 2008 the Group has made a restructuring by means of which Milkiland B.V. became a direct shareholder of Milkiland Corporation:

According to the Preliminary contract on sale and purchase on 13 December 2007, the Contract on sale and purchase on 1 January 2008, and amendments to these contracts 1, Inc. has sold 100 shares of Milkiland Corporation to Axel Management Inc. (Republic of Panama). The purchase price is 2,400 000,00 € in USD by the official rate established by the European Central Bank on the date of payment, that maked 3,523,920,00 USD. Mentioned shares were already paid up on 13 December 2007.

According to the Share Register of Milkiland Corporation, 1, Inc. has transferred 100 shares to Axel Management Inc. (Republic of Panama) as of 30 January 2008.

According to the Preliminary contract on sale and purchase on 13 December 2007, the Contract on sale and purchase on 30 January 2008, and amendments to these contracts Axel Management Inc. has sold 100 shares of Milkiland Corporation to Milkiland B.V. (The Netherlands). The purchase price is 2,410,000,00 € in USD by the official rate established by the European Central Bank on the date of payment, that maked 3,538,603,00 USD. Mentioned shares were already paid up on 13 December 2007.

According to the Share Register of Milkiland Corporation, Axel Management Inc. has transferred 100 shares to Milkiland B.V. (The Netherlands) as of 31 January 2008.

According to the Preliminary contract on sale and purchase of corporate rights of the Daughter enterprise "Milkiland-Ukraine" on 3 December 2007 and the Contract on sale and purchase on 31 January 2008, Milkiland Corporation has sold 100 per cent. corporate rights of Daughter enterprise "Milkiland-Ukraine" to Milkiland B.V., which is considered full participant of this enterprise after the state registration of change of the Articles of Association of the enterprise. The state registration took place at 4 March 2008. The purchase price is USD 1,980,198. Mentioned corporate rights were already paid up on 13 December 2007.

On January 2008 the Group accomplished purchasing of 75,23 per cent. of shares of JSC Ostankinsky Dairy Combine from a third parties having paid 41,000 thousand USD. As at 31 December 2007 the prepayment at the amount of EUR 2.9 million has been made to secure the purchase.

On 3 December 2007 the shareholder of the company took a decision about splitting of the currently outstanding shares into ten (10) shares with a nominal value of ten Eurocent (€ 0,10) each and future issuing of 24,100,000 of ordinary shares, amounting to nominal EUR 2,410,000. As at 31 December 2007 the Shareholder has pre-paid EUR 2,410,000 for these shares on the basis of the preliminary agreement on issuing and purchase of shares signed on 4 December 2007.

Milkiland B.V. has been converted from a private limited liability company (BV) into a public limited liability company (NV) on 23 May 2008. Now this company names as Milkiland N.V.