



CONFIRMATION OF THE RESPONSIBLE PERSONS

Following the Law on Securities of the Republic of Lithuania, and rules prepared by the Lithuanian Securities Commission for preparation and announcement of periodical and supplementary information, we, responsible persons, hereby confirm, that consolidated and annual financial statements for the year 2010, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Vilkyškių pieninė AB company and group, and also that the consolidated and annual reports of the year 2010 show fair business environment as well as description of the company's performance including key risk factors and uncertainties which may be met by AB "Vilkyškių pieninė".

The General Director of Vilkyškių pieninė

Gintaras Bertašius

The Finance Director of Vilkyškių pieninė

Vilija Milaševičiutė

AB Vilkyškių Pieninė

Consolidated financial
statements for the year ended
31 December 2010

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Group details

AB Vilkyškių Pieninė

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Group code: 277160980

Registered office: LT-99369 Vilkyškiai, Pagėgiai municipality, Lithuania

Board

Gintaras Bertašius (Chairman)

Sigitas Trijonis

Rimantas Jancevičius

Vilija Milaševičiūtė

Andrej Cyba

Linas Strėlis

Management

Gintaras Bertašius, General Director

Vaidotas Juškys, Chief Operation Officer

Sigitas Trijonis, Technical Director

Rimantas Jancevičius, Stock Director

Arvydas Zaranka, Production Director

Vilija Milaševičiūtė, Finance Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas

AB Bankas SNORAS

Swedbank, AB

DnB Nord Bankas

Management's statement on consolidated financial statements

The Management has today discussed and authorized for issue the consolidated annual financial statements and the annual report and has signed them on behalf of the Group.

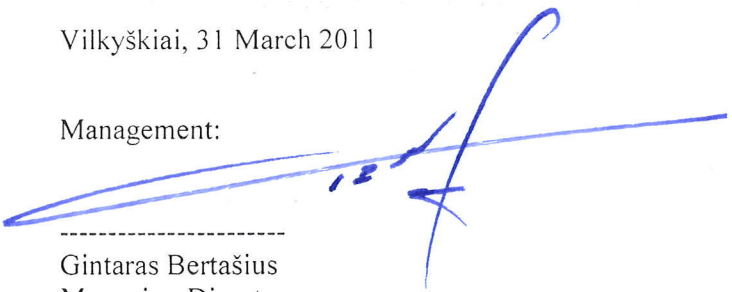
The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the annual financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

We recommend the consolidated annual financial statements to be approved at the annual General Meeting.

Vilkyškiai, 31 March 2011

Management:

Gintaras Bertašius
Managing Director





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Independent auditor's report to the shareholders of AB Vilkyškių Pieninė

We have audited the accompanying consolidated financial statements of AB Vilkyškių pieninė ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matter

Our opinion on the 31 December 2009 consolidated financial statements dated 29 March 2010 was qualified because the Company had not classified its interest bearing loans as required by IAS 1, 'Presentation of financial statements'. The Company has restated its consolidated statement of financial position as at 31 December 2009 and recorded appropriate correction, as disclosed in the notes to the consolidated financial statements. For the purpose of the presentation of the loans as at 31 December 2010 the Company obtained waiver letters from the Banks confirming that the Banks would not treat the non-compliance as material breach of loan agreements and would not specifically request early repayment of the loans in the year 2011.

Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year 2010 set out on pages 54-99 of the consolidated financial statements and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2010.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner pp
Certified Auditor

Klaipėda, the Republic of Lithuania
31 March 2011

Consolidated statement of financial position

As at 31 December

Thousand Lit	Note	2010	2009
Assets			
Property, plant and equipment	10	65,674	66,248
Intangible assets	11	24,273	24,483
Long-term receivables	12	1,487	1,421
Non-current assets		91,434	92,152
Inventories	13	16,950	18,512
Trade and other receivables	14	12,986	14,422
Prepayments	15	1,792	398
Cash and cash equivalents	16	358	395
Current assets		32,086	33,727
Total assets		123,520	125,879
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		8,252	8,624
Retained earnings		18,067	7,048
Total equity attributable to the shareholders of the Group	17	49,658	39,011
Non-controlling interest		155	88
Total equity	17	49,813	39,099
Liabilities			
Interest-bearing loans and lease liabilities	18	22,279	22,283
Government grants	19	8,479	8,203
Deferred tax liabilities	20	2,739	2,301
Non-current liabilities		33,497	32,787
Interest-bearing loans and lease liabilities	18	18,421	32,973
Current tax liabilities		1	-
Trade and other payables, including derivatives	21	21,788	21,020
Current liabilities		40,210	53,993
Total liabilities		73,707	86,780
Total equity and liabilities		123,520	125,879

The notes on pages 12-53 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December

Thousand Lit	Note	2010	2009
Revenue	1	244,273	159,318
Cost of sales	2	-215,120	-134,289
Gross profit		29,153	25,029
Other operating income	3	3,510	4,421
Distribution expenses	5	-7,495	-7,048
Administrative expenses	6	-7,584	-6,528
Other operating costs	4	-3,848	-4,622
Result from operating activities		13,736	11,252
Finance income		514	66
Finance costs		-1,904	-3,346
Net finance expense	7	-1,390	-3,280
Profit before income tax		12,346	7,972
Income tax expense	8	-504	-1,249
Profit for the year		11,842	6,723
Attributable to:			
Shareholders of the Group		11,775	6,690
Non-controlling interest		67	33
Profit for the year		11,842	6,723
Basic earnings per share (Litas)	9	0.99	0.56
Diluted earnings per share (Litas)	9	0.99	0.56

The notes on pages 12-53 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December

Thousand Litas	Note	2010	2009
Profit for the year		11,842	6,723
Other comprehensive income			
Increase (decrease) of revaluation reserve		-	-
Effect of income tax		66	540
Other comprehensive income for the year, net of income tax		66	540
Total comprehensive income		11,908	7,263
Attributable to:			
Shareholders of the Group		11,841	7,230
Non-controlling interest		67	33
Total comprehensive income		11,908	7,263

The notes on pages 12-53 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Thousand Lit	Note	Equity attributable to shareholders of the Group						Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total		
Balance at 1 January 2009		11,943	11,396	7,588	935	-81	31,781	55	31,836
Comprehensive income for the period									
Profit for the year		-	-	-	-	6,690	6,690	33	6,723
Other comprehensive income									
Depreciation of revalued assets		-	-	-439	-	439	-	-	-
Increase of revaluation reserve, net of tax		-	-	540	-	-	540	-	540
Total other comprehensive income		-	-	101	-	439	540	-	540
Total comprehensive income for the period		-	-	101	-	7,129	7,230	33	7,263
Contributions by and distributions to owners:									
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Changes in the Group without losing control									
Other changes in the Group		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners									
Balance at 31 December 2009	17	11,943	11,396	7,689	935	7,048	39,011	88	39,099

(continued)

The notes on pages 12-53 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (continued)

Thousand Litas	Note	Equity attributable to shareholders of the Group						Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total		
Balance at 1 January 2010		11,943	11,396	7,689	935	7,048	39,011	88	39,099
Comprehensive income for the period									
Profit for the year		-	-	-	-	11,775	11,775	67	11,842
Other comprehensive income									
Depreciation of revalued assets		-	-	-438	-	438	-	-	-
Increase of revaluation reserve, net of tax		-	-	66	-	-	66	-	66
Total other comprehensive income		-	-	-372	-	438	66	-	66
Total comprehensive income for the period		-	-	-372	-	12,213	11,841	67	11,908
Contributions by and distributions to owners:									
Dividends		-	-	-	-	-1,194	-1,194	-	-1,194
Total contributions by and distributions to owners		-	-	-	-	-1,194	-1,194	-	-1,194
Changes in the Group without losing control									
Other changes in the Group		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance at 31 December 2010	17	11,943	11,396	7,317	935	18,067	49,658	155	49,813

The notes on pages 12-53 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

Thousand Lit	Note	2010	2009
Cash flows from operating activities			
Profit for the year		11,842	6,723
Adjustments:			
Depreciation of property, plant and equipment	10	6,348	6,471
Amortization of intangible assets	11	297	260
Amortization of grants	19	-717	-723
Loss on disposal of property, plant and equipment		57	904
Profit from disposal of investments		-371	-
Income tax expense		504	1,249
Interest expenses, net		1,687	3,079
		19,647	17,963
Change in inventories		1,562	2,089
Change in long-term receivables		-66	-188
Change in trade and other receivables and prepayments		40	4,882
Change in trade and other payables		493	-3,875
		21,676	20,871
Interest paid		-1,687	-3,079
Net cash from operating activities		19,989	17,792
Cash flows from investing activities			
Acquisition of property, plant and equipment	10	-5,432	-2,402
Acquisition of intangible assets	11	-87	-450
Proceeds from sale of property, plant and equipment		558	519
Net cash used in investing activities		-4,961	-2,333

Consolidated statement of cash flows (continued)

For the year ended 31 December

Thousand Litas	Note	2010	2009
Cash flows from financing activities			
Loans received		2,337	515
Repayment of borrowings		-17,201	-15,806
Dividends paid		-1,194	-
Capital grants received	19	993	32
Net cash used in financing activities		-15,065	-15,259
Increase (decrease) in cash and cash equivalents			
		-37	200
Cash and cash equivalents at 1 January		395	195
Cash and cash equivalents at 31 December	16	358	395

The notes on pages 12-53 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

Background information

The Group (hereinafter – the Group) consists of the following companies:

- Vilkyškių Pieninė, the parent Company (hereinafter – the Parent Company or the Company)
- AB Modest, the subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, the subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė).

AB Vilkyškių Pieninė was established in 1993. The Group does not have any branches or representative offices.

AB Vilkyškių Pieninė is a Lithuanian Company listed on the Vilnius Stock Exchange. As at 31 December 2010 the Company's shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in Litas	Total value in Litas
Gintaras Bertašius	6,016,506	1	6,016,506
UAB FMĮ "Orion securities" clients	1,757,938	1	1,757,938
Linas Strėlis	1,015,000	1	1,015,000
Skandinaviska Enskilda Banken AB	1,000,036	1	1,000,036
Finasta Group	704,692	1	704,692
Other	1,448,828	1	1,448,828
Total	11,943,000	1	11,943,000

The parent Company is engaged in production and sales of different types of cheese. Also, it produces and sells whey, raw milk and cream.

Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region. The Parent Company also has a milk purchase and processing centre in Eržvilkas, Jurbarkas region.

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 99.7% voting rights of the subsidiary. AB Modest specialises in production of cheese, cottage cheese and other cheese products.

The Parent Company has a subsidiary AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. The Company holds 99% voting rights of AB Kelmės Pieninė. AB Kelmės Pieninė specializes in production of fresh dairy products.

On 15 June 2010 AB Kelmės Pieninė disposed the subsidiary UAB Kelmės Pieno Centras.

As at 31 December 2010 the Group had 755 employees (31 December 2009: 735).

Notes to the consolidated financial statements

Basis for preparation

Statement of compliance

These are consolidated financial statements (hereinafter - financial statements or consolidated financial statements) of AB Vilkyškių Pieninė Group, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The parent company accounts are issued as required by Lithuanian law, prepared in accordance with IFRS as adopted the EU.

The management of the Parent Company is authorized to issue the consolidated financial statements of the Group after they are approved by the general shareholders meeting, which must be convened by 30 April 2011 as prescribed by the Companies Law of the Republic of Lithuania.

Basis of measurement

Financial statements are prepared on the historical cost basis except for:

- derivative financial instruments which are measured at fair value;
- buildings that are a part of property, plant and equipment and are measured at fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

Functional and presentation currency

The financial statements are presented in thousands Litas (tLTL). Litas (LTL) is the legal currency of Lithuania and considered to be the functional currency of the Parent Company and its subsidiaries.

Foreign currency transactions

Transactions in foreign currencies are translated into Litas at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into Litas at the exchange rate ruling at that date. All transactions made in Euro have been translated to Litas at the exchange rate of 1 Euro=3.4528 Litas as fixed by the Central Bank of Lithuania.

Foreign currency exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Litas at foreign exchange rates ruling at the dates the values were determined.

Basis of consolidation

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable (due to financial instruments potentially convertible into shares) are taken into account. The financial statements of subsidiaries are included in the Group consolidated financial statements from the date that control commences until the date that control ceases

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements

Summary of significant accounting policies

The accounting policies of the Group, set out below, have been applied consistently to all periods presented in these financial statements, except for those which changed due to the changes in amended standards and the new IFRSs as explained below in the section “Effect on financial statements of application of new standards and amendments and new interpretation to standards”.

The Group retrospectively restated presentation of interest-bearing loans as at 31 December 2009 and re-presented related comparative financial information for the year 2009. The reason for the restatement was non-compliance with debt covenants as at 31 December 2009 and improper presentation of current and non-current part in accordance with IAS 1 in the financial statements as at and for the year ended 31 December 2009. The effect of the correction is specified below:

Thousand Lit	As to issued financial statements as at and for the year ended 31 Dec. 2009	Correction	Restated comparative information 31 Dec. 2009
Long-term interest-bearing loans and leases liabilities	39,266	-16,983	22,283
Short-term interest-bearing loans and leases liabilities	15,990	16,983	32,973
	<u>55,256</u>	<u>-</u>	<u>55,256</u>

Property, plant and equipment

Items of property, plant and equipment, including assets under finance lease terms, but excluding buildings, are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour costs and an appropriate proportion of production overheads.

When parts of an item of property, plant and equipment have different useful lives, they are accounted as separate items of property, plant and equipment.

The Parent Company and subsidiaries recognizes in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the costs of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

Buildings are recorded at revalued amounts, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the statement of financial position date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful economic lives of assets. The revaluation reserve for buildings is being reduced in conformity with depreciation of certain assets.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

In the case of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and such impairment is recognized as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve, to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded through other comprehensive income into the revaluation reserve of property, plant and equipment under the equity. However such an increase in value is recognized as income to the extent it does not exceed the decrease of previous revaluation recorded under capital. Depreciation is calculated on the amount which is equal to the acquisition cost/revalued amount net of residual value of the asset.

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Parent Company and its subsidiaries and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives are as follows:

Buildings	10-40 years
Machinery and equipment	5-15 years
Other assets	3-7 years

The useful lives, residual values and depreciation method are reviewed annually to ensure that the period of depreciation and other estimates are consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Leased assets

Leases under the terms of which the Parent Company and its subsidiaries assume substantially all the risks and rewards of the ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments less accumulated depreciation and impairment losses.

Intangible assets

Intangible assets that are acquired by the Parent Company and its subsidiaries are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of 3 years.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Non-controlling interest

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the parent. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Financial assets and liabilities

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date, except loans, receivables and deposits which are recognized at the date they are originated. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the economic characteristics and risks of the embedded derivative are closely related to the risk of the host contract or the embedded derivative has been separately accounted from the host financial instrument.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Related gains or losses on revaluation are charged directly to the income statement. Interest income and expense and dividends on such investments are recognized as interest income and dividend income or interest expenses, respectively.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Parent Company or subsidiaries has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method, less any impairment losses. The effective interest method is based on estimated cash flows considering all contractual terms of the financial instrument at the date the instrument is recognized. Gains and losses are recognized in the income statement when the investments are derecognized or impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses, except impairment losses, being recognized through other comprehensive income as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest rate method.

Borrowing costs

Borrowing costs on loans used for acquisition of property, plant and equipment are recognized as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment.

Trade and other payables

Trade and other payables are recognized initially at fair value plus any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method. The carrying value of trade and other payables approximate their fair values due to their short maturity.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative, and the combined instrument is not measured at fair value though profit and loss.

Derivatives are recognized initially at fair value: attributable transaction costs are recognized in profit and loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Parent Company or subsidiaries has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Parent Company or subsidiaries has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Parent Company or subsidiaries continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Impairment

Financial assets

Financial assets not carried at fair value through profit or losses are reviewed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial assets carried at amortized cost, whenever it is probable that the Parent Company and subsidiaries will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement. The reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

In relation to trade and other receivables impairment loss is recognized when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Parent Company and subsidiaries will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversal of impairment losses

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed for possible indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate possible impairment. If any such indication exists, then the assets recoverable amount is estimated.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Impairment (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”).

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

Provisions

A provision is recognized in the statement of financial position when the Parent Company or subsidiaries has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee benefits

Short-term employee benefits are recognized as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, paid holidays and other benefits. There are no long-term employee benefits.

Finance and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee

Financial lease, which transfer to the Parent Company or subsidiaries substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant period rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Finance and operating leases (continued)

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Parent Company or subsidiaries will obtain ownership by the end of the lease term.

Operating lease payments are recognized as expenses in profit or loss on a straight line basis over the lease term.

Dividends

Dividends are recognized as a liability for the period in which they are declared.

Government grants

Grants that compensate the Parent Company or subsidiaries for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

Grants that compensate the Parent Company or subsidiaries for the cost of an asset are amortized over the same period as the asset for which the grant has been received. Amortization costs are included in production cost or administrative costs as well as in depreciation of property, plant and equipment for which the grant has been received.

Revenue

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

Cost of sales

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Distribution and administrative expenses

Distribution and administrative expenses comprise expenses of transportation, administrative staff, management, office expenses, etc. including depreciation and amortization.

Other operating income and costs

Other operating income and charges comprise gain or loss from disposal of non-current assets as well as other income and costs not related to the primary activity.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Financial income and expenses

Financial income and expenses comprise interest receivable and payable, realized and unrealized exchange gains and losses regarding debtors and creditors denominated in foreign currencies.

Interest income is recognized in the income statement using the effective interest method. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized through other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Standard profit tax rate applied to the companies in the Republic of Lithuania is 15%, in 2009 - 20%. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 15% tax rate has been established for an indefinite period starting 1 January 2010. Tax losses can be carried forward for indefinite period if the Company does not change its activities due to which these losses incurred, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

Deferred tax assets have been recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

The Parent Company provides information on basic earnings per share and diluted earnings per share. Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company by the weighted number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. During the financial year the Parent Company did not issue any potential ordinary shares.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the General Director of the Parent Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Effect on financial statements of application of new standards and amendments and new interpretations to standards

The accounting policies applied by the Parent company and subsidiaries coincide with the accounting policies of the previous year, except that the Parent company and subsidiaries has implemented those new/revised standards and their interpretations, which are mandatory for financial periods starting on or after 1 January 2010 and which are relevant to the Parent Company's or subsidiaries activity:

- Amendments to IFRS 3 Business combinations is applicable for annual periods beginning on or after 1 July 2009. The Standard's scope of application was amended and the description of the purpose was expanded. The amendments to IFRS 3 are not relevant to the Parent Company's financial statements as the Group had no business combinations in 2009 and 2010.
- Amendment to IAS 27 Consolidated and separate Financial Statements is effective for annual periods beginning on or after 1 July 2009. In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Consolidated Financial Statements of the Parent Company are prepared in accordance with the amendment to IAS 27.
- Amendment to IAS 32 Financial Instruments: Presentation is effective for annual periods beginning on or after 1 July 2009. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Parent Company's as the Parent Company and subsidiaries has not issued such instruments.
- The amendment to IAS 39 Financial Instruments: Recognition and Measurement clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. Amended IAS 39 is effective for annual periods beginning on or after 1 July 2009. The amendments to IAS 39 have no impact on the Parent Company's or subsidiaries hedging arrangements.
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Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Effect on financial statements of application of new standards and amendments and new interpretations to standards (continued)

- The Interpretation of IFRIC 12 Service concession arrangements provide guidance to private sector entities on certain recognition and measurement issues. IFRIC 12 is effective for first annual periods beginning on or after 1 April 2009. The interpretation of IFRIC 12 is not relevant to the Parent Company's financial statements as the Parent Company and subsidiaries does not have such arrangements.
- IFRIC 18 Transfers of Assets from Customers is effective prospectively for transfers of assets from customers received on or after 1 July 2009. The Interpretation applies to the accounting by entities that receive contributions of property, plant and equipment from their customers. The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the contributed item meets the criteria for property, plant and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of the revenue recognition will depend on the facts and circumstances of the particular agreement. The Interpretation is not relevant to the Parent Company's financial statements as the Parent Company and subsidiaries does not receive in scope asset contributions from its customers.
- The Interpretation of IFRIC 17 Distributions of Non-cash Assets to Owners applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be premeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss.

IFRIC 17 is effective for annual periods beginning on or after 15 July 2009. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

Approved, but not yet effective standards

A number of new and revised International Financial Reporting Standards and their interpretations have been issued, which will become mandatory for the Parent Company's financial statements in accounting periods beginning after 1 January 2010. The Parent Company has decided not to apply the amendments and new standards and interpretations early. Below is the estimate of the Parent Company's management regarding the potential effect of the new and revised standards and interpretations upon their first-time application.

Notes to the consolidated financial statements

Summary of significant accounting policies (continued)

Approved, but not yet effective standards (continued)

▪ *Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues"* is effective for annual periods beginning on or after 1 February 2010. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Parent Company's financial statements as the Parent Company and subsidiaries has not issued such instruments at any time in the past.

▪ *Revised IAS 24 "Related Party Disclosure"* is effective for annual periods beginning on or after 1 January 2011. The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is not expected to result in new relations requiring disclosure in the financial statements.

▪ *Amendment to IFRIC 14 / IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* is effective for annual periods beginning on or after 1 January 2011. The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 are not relevant to the Parent Company's financial statements as the Parent Company and subsidiaries does not have any defined benefit plans with minimum funding requirements.

▪ *IFRIC 19 "Extinguishing Financial liabilities with Equity instruments"* is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Parent Company and subsidiaries did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Parent Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Notes to the consolidated financial statements

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

Subsequent events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Parent Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Impairment losses on goodwill and property, plant and equipment

The carrying amounts of the Group's goodwill and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value.

Valuation of buildings

Information about assumptions and estimation uncertainties related to valuation of buildings is included in Note 10 "Property, plant and equipment".

Notes to the consolidated financial statements

Use of judgements (continued)

Impairment losses on receivables

The Parent Company and subsidiaries reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Parent Company and subsidiaries makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the Parent Company and subsidiaries of the receivables.

The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Useful lives for property, plant and equipment

Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilization and physical condition of the assets concerned.

Financial risk management

The Parent Company and subsidiaries has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,
- capital management risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Notes to the consolidated financial statements

Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 25 Financial instruments and risk management.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group does not have significant interest-bearing assets. As to the management, the risk related to changes in interest rates on borrowings is within acceptable parameters and the Group does not use any derivative instruments to hedge the interest rate risk.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

The note "Financial instruments and risk management" presents information about the Group's exposure to each of the credit, liquidity and capital management risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are also included throughout these annual financial statements.

Notes to the consolidated financial statements

1 Segment reporting

The Group has three reportable segments: AB Vilkyškių Pieninė (parent Group), AB Kelmės Pieninė (a subsidiary) and AB Modest (a subsidiary). The activity of each Group (segment) is related to production of dairy products. However, the companies produce different dairy products and therefore use different technologies and apply different marketing strategies. The Chairman of the Board of the Group reviews internal management reports of the segments on a monthly basis.

The largest segment of the Group is AB Vilkyškių Pieninė. More detailed information about segments of the separate Group AB Vilkyškių Pieninė is presented in separate financial statements.

Segment information for 2010:

Thousand Lit	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	249,969	73,613	41,839	-121,148	244,273
Interest income	144	2,155	-	-1,785	514
Interest expenses	-1,479	-479	-110	164	-1,904
Depreciation and amortization	4,535	1,479	631	-	6,645
Result before taxation	3,568	7,370	3,010	-1,602	12,346
Income tax expense	-504	-	-	-	-504
Profit for the year	3,064	7,370	3,010	-1,602	11,842
Other material non-cash items	-	-	-	-	-
Segment assets	102,906	35,776	11,296	-26,458	123,520
Acquisition of property, plant and equipment	-3,885	-552	-1,082	-	-5,519
Segment liabilities	62,292	18,891	6,032	-13,508	73,707

Adjustments are related to elimination of inter-Group transactions and balances.

Segment information for 2010 per geographical zones:

Thousand Lit	Revenue	Assets
Lithuania	91,626	123,520
European Union	84,431	-
Russia	62,661	-
Other countries	5,555	-
	<u>244,273</u>	<u>123,520</u>

Notes to the consolidated financial statements

1 Segment reporting (continued)

Segment information for 2009:

Thousand Lit	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	145,744	54,913	18,552	-59,891	159,318
Interest income	55	176	-	-165	66
Interest expenses	-2,312	-886	-311	163	-3,346
Depreciation and amortization	4,448	1,725	558	-	6,731
Result before taxation	5,353	3,608	-977	-12	7,972
Income tax expense	-1,249				-1,249
Net profit (loss)	4,104	3,608	-977	-12	6,723
Other material non-cash items	-	-	-	-	-
Segment assets	102,044	34,065	8,616	-18,846	125,879
Acquisition of property, plant and equipment	-1,895	-614	-361	18	-2,852
Segment liabilities	63,365	24,391	11,361	-12,337	86,780

Adjustments are related to elimination of inter-Group transactions and balances as well as other consolidation adjustments.

Segment information for 2009 per geographical zones:

Thousand Lit	Revenue	Assets
Lithuania	74,782	125,879
European Union	67,763	-
Russia	15,060	-
Other countries	1,713	-
	<u>159,318</u>	<u>125,879</u>

Information about major clients

Income from one major client earned by the Group in 2010 amounted to 34,748 thousand Lit (2009: 21,157 thousand Lit).

Notes to the consolidated financial statements

Thousand Lit	2010	2009
2 Cost of sales		
Raw materials	-176,576	-100,103
Staff costs	-14,806	-14,031
Depreciation	-4,574	-5,161
Gas, electricity	-6,754	-4,273
Other costs	-12,410	-10,721
	<u>-215,120</u>	<u>-134,289</u>
3 Other operating income		
Income from services rendered	2,168	3,253
Income from sold materials	1,139	427
Other income	203	741
	<u>3,510</u>	<u>4,421</u>
4 Other operating costs		
Cost of services rendered	-1,498	-2,826
Cost of sold materials	-1,117	-342
Depreciation on rented assets	-1,052	-767
Other costs	-181	-687
	<u>-3,848</u>	<u>-4,622</u>
5 Distribution expenses		
Logistics and transportation	-3,469	-3,524
Marketing and advertising	-2,228	-1,544
Staff costs	-1,089	-893
Depreciation	-114	-
Other sales costs	-595	-1,087
	<u>-7,495</u>	<u>-7,048</u>
6 Administrative expenses		
Staff costs	-3,180	-2,943
Depreciation and amortization	-905	-803
Taxes except for income tax	-605	-403
Professional services	-382	-220
Security	-331	-359
Impairment of trade and other receivables	-296	-
Decrease in inventory value	-231	-
Bank charges	-185	-270
Veterinary services	-178	-175
Fuel	-168	-121
Fines	-133	-169
Security commission services	-101	-85
Repair	-85	-110
Insurance	-83	-85
Payments to Board members	-67	-
Membership	-51	-2
Other	-603	-783
	<u>-7,584</u>	<u>-6,528</u>

Notes to the consolidated financial statements

Thousand Lit	2010	2009
7 Net financing costs		
<i>Finance income</i>		
Gain from disposal of UAB Kelmės pieno centras	371	-
Interest	86	41
Penalties and fines	57	20
Other	-	5
Total finance income	514	66
<i>Finance costs</i>		
Interest	-1,693	-2,971
Loss from foreign exchange	-168	-206
Other	-43	-169
Total finance costs	-1,904	-3,346
	-1,390	-3,280

In the year 2010 AB Kelmės pieninė sold 100% owned subsidiary UAB Kelmės pieno centras. Total assets of UAB Kelmės pieno centras in its separate accounts as at disposal date amounted to approximately LTL 1 thousand and its equity amounted to negative amount of approximately minus LTL 1,967 thousand. The gain realized of LTL 371 thousand is related to derecognition of trade payables to 3rd parties.

8 Income tax expense		
Thousand Lit	2010	2009
<i>Recognized in the income statement</i>		
Current income tax expense		
Current period	-1	-
Deferred tax		
Change in deferred tax	-503	-1,249
	-504	-1,249

Deferred tax liability in respect of revalued buildings, shown in equity, amounts to 1,291 thousand Lit as at 31 December 2010 (as at 31 December 2009: 1,356 thousand Lit).

Notes to the consolidated financial statements

8 Income tax expense (continued)

Thousand Lit

Reconciliation of effective tax rate

Thousand Lit	2010		2009	
Profit for the year		11,842		6,723
Total income tax expense		504		1,249
Profit excluding income tax		12,346		7,972
Income tax applying the effective tax rate	15.00%	1,852	20.00%	1,594
Non-taxable profit of AB Kelmės Pieninė due to social status of the Group	-6.98%	-862	-9.05%	-722
Permanent differences	-0.95%	-118	3.76%	300
Recognition of previously unrecognized tax losses	-2.98%	-368	-	-
Reduction in tax rate	-	-	0.96%	77
Income tax expense	4.09%	504	15.67%	1,249

9 Earnings per share

	2010	2009
Number of issued shares calculated based on weighted average method, in thousand units	11,943	11,943
Net profit, attributable to ordinary shareholders of the Parent Company, in thousand Lit	11,775	6,690
Basic earnings per share, in Lit	0.99	0.56

The diluted earnings per share are the same as basic earnings per share.

Notes to the consolidated financial statements

10 Property, plant and equipment

Thousand Lit	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2009	29,049	50,604	14,250	3,221	97,124
Acquisitions	78	1,235	207	882	2,402
Disposals	-926	-1,613	-762	-	-3,301
Reclassification	170	223	503	-896	-
Balance as at 31 December 2009	28,371	50,449	14,198	3,207	96,225
Balance as at 1 January 2010	28,371	50,449	14,198	3,207	96,225
Acquisitions	73	1,691	591	4,063	6,418
Disposals	-199	-1,697	-337	-20	-2,253
Reclassification	3,202	3,128	34	-6,364	-
Balance as at 31 December 2010	31,447	53,571	14,486	886	100,390
Depreciation and impairment					
Balance as at 1 January 2009	2,256	15,949	7,179	-	25,384
Depreciation for the year	2,730	2,758	983	-	6,471
Disposals	-82	-1,078	-718	-	-1,878
Reclassification	-	-	-	-	-
Balance as at 31 December 2009	4,904	17,629	7,444	-	29,977
Balance as at 1 January 2010	4,904	17,629	7,444	-	29,977
Depreciation for the year	1,490	4,100	758	-	6,348
Disposals	-197	-1,232	-180	-	-1,609
Reclassification	-	-	-	-	-
Balance as at 31 December 2010	6,197	20,497	8,022	-	34,716
Carrying amounts					
At 1 January 2009	26,793	34,655	7,071	3,221	71,740
At 31 December 2009	23,467	32,820	6,754	3,207	66,248
At 31 December 2010	25,250	33,074	6,464	886	65,674

Prepayments for Property, Plant and Equipment are classified as acquisitions of Property, Plant and Equipment.

Pledges

To secure bank loans, the Group has pledged its Property, Plant and Equipment with a book value of 51,711 tLTL as at 31 December 2010 (31 December 2009: 48,619 tLTL) (note 18).

Acquisition cost of fully depreciated Property, Plant and Equipment in use amounts to 14,181 tLTL as at 31 December 2010 (31 December 2009: 14,626 tLTL).

Notes to the consolidated financial statements

10 Property, plant and equipment (continued)

Leased property, plant and equipment

The Group has acquired several transport vehicles, plant and equipment using finance lease arrangements. The carrying amount of the leased assets amounted to 3,598 tLTL as at 31 December 2010 (31 December 2009: 3,041 tLTL).

Depreciation

Depreciation is recorded in the following items:

Thousand Litas	2010	2009
Cost of sales	4,574	5,161
Other operating costs	1,052	767
Distribution and administrative expenses	722	543
	<u>6,348</u>	<u>6,471</u>

Valuation of buildings

The Group accounts for buildings at revalued value. Carrying amount of buildings stated as revalued amount less depreciation amounts to 18,579 tLTL as at 31 December 2010 (31 December 2009: 7,229 tLTL). Revaluation was performed in 2006. Buildings of AB Kelmės Pieninė, the carrying amount of which as at 31 December 2010 amounts to 6,338 tLTL (31 December 2009: 6,717 tLTL), are evaluated at fair value at acquisition date (30 April 2008). An internal analysis performed by the management in February 2011 showed that the carrying amounts of the buildings, stated as at 31 December 2010, do not significantly differ from the fair value determined based on the depreciated replacement cost approach in 2010. If buildings would be stated at acquisition costs less depreciation, the carrying amount as at 31 December 2010 would amount to 16,646 tLTL (31 December 2009: 14,425 tLTL).

The revaluation reserve is decreased by an amount of deferred tax and its net value as at 31 December 2010 amounts to 7,317 tLTL (31 December 2009: 7,689 tLTL).

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Notes to the consolidated financial statements

11 Intangible assets

Thousand Litas	Goodwill	Software	Total
Cost			
Balance at 1 January 2009	23,875	1,098	24,973
Acquisitions	-	450	450
Disposals	-	-11	-11
Balance at 31 December 2009	23,875	1,537	25,412
Balance at 1 January 2010	23,875	1,537	25,412
Acquisitions	-	87	87
Disposals	-	-	-
Balance at 31 December 2010	23,875	1,624	25,499
Amortization and impairment			
Balance at 1 January 2009	-	680	680
Amortization for the year	-	260	260
Disposals	-	-11	-11
Balance at 31 December 2009	-	929	929
Balance at 1 January 2010	-	929	929
Amortization for the year	-	297	297
Disposals	-	-	-
Balance at 31 December 2010	-	1,226	1,226
Carrying amounts			
1 January 2009	23,875	418	24,293
31 December 2009	23,875	608	24,483
31 December 2010	23,875	398	24,273

Amortization for the year is recognized in administrative expenses.

Impairment of cash generating units with attributed goodwill

Goodwill is attributed to the Group's cash generating units as presented below:

Thousand Litas	2010	2009
AB Kelmės Pieninė	22,842	22,842
AB Modest	1,033	1,033
	<u>23,875</u>	<u>23,875</u>

Notes to the consolidated financial statements

11 Intangible assets (continued)

Impairment of cash generating units with attributed goodwill (continued)

These cash generating units were tested for impairment when calculating their value of use. When estimating the value in use, the calculated future cash flows have been discounted to their present value using the pre-tax average rate of the weighted average cost of capital in the industry, which was 10.04% (2009: 8.54%). Calculation of the value in use performed in 2010 was as well applied for the year 2009, if not indicated otherwise. Calculation of the value in use is based on the following key assumptions:

- Future cash flows in 2009 and 2010 are calculated based on historical experience and the 5 year business plan. Cash flows expected during the subsequent 10 years period were calculated by extrapolating the cash flow of the fifth year with the zero growth ratio.
- The Group's management is planning to strengthen the Group's marketing efforts and to increase export sales;
- The Group's management expects that prices of raw milk will not differ significantly from the prices in 2010;
- As to the forecasts of the management, an effect of inflation on sales prices and raw material prices will be insignificant;

The goodwill occurred during business combination is mainly attributable to synergy which is expected to be reached after integration of the Group companies in the Group activity related to production of dairy products.

12 Long-term receivables

Thousand Lit	Note	2010	2009
Prepayments to related parties	24	842	842
Loans granted to related parties, including calculated interests	24	560	351
Long-term receivables from farmers		84	-
Other long-term receivables		1	11
Long-term receivables from customers		-	217
		<u>1,487</u>	<u>1,421</u>

A prepayment (842 thousand Lit) is made to a related company ŪKB Šilgaliai. An agreement was drawn up in 2007, based on which the prepayment shall be fully covered until 31 December 2012. The outstanding balance of the prepayment bears an annual fixed interest.

A loan of 351 thousand Lit, issued to a related party ŪKB Šilgaliai, matures on 31 December 2012. The outstanding balance of the loan bears an annual interest.

Interest on loans receivable from related parties includes interest receivable on the loan granted to ŪKB Šilgaliai. Amount of 80 thousand Lit should be paid until 31 December 2012, the rest amount 129 thousand Lit – until 31 December 2013.

Notes to the consolidated financial statements

12 Long-term receivables (continued)

Long term receivables from farmers include prepayments made to farmers for milk. The outstanding balance of the prepayments bears an administrative fee.

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 25.

13 Inventories

Thousand Lit	2009	2010
Finished production	12,079	14,683
	12,079	14,683
Other auxiliary materials	3,787	3,624
Goods for re-sale	707	11
Raw materials	377	194
	16,950	18,512

Raw materials comprise raw milk and other materials used in production.

In 2010 the write-down of inventories to net realizable value amounted to 68 thousand Lit (2009: none). The write-down is included in cost of sales.

As at 31 December 2010 the inventories, the carrying amount of which amounts up to 16,5 million LTL (as at 31 December 2009: up to 16,5 million LTL) have been pledged to financial institutions (note 18).

14 Trade and other receivables, net of impairment

Thousand Lit	Note	2010	2009
Trade receivables		11,410	12,373
Receivable taxes		1,381	626
Trade receivables from related parties	24	-	137
Receivable export compensations		-	100
Other receivable amounts		195	1,186
		12,986	14,422

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 25.

Receivable taxes mainly comprise receivable VAT.

Trade and other receivable amounts are interest free and their settlement term is up to 30 days.

Notes to the consolidated financial statements

15 Prepayments

Thousand Lit	Note	2010	2009
Prepayments for goods and services	a)	1,478	398
Prepayments to related parties	24	314	-
		<u>1,792</u>	<u>398</u>

a) Prepayments include advance payments to entities for goods and services and to farmers for milk.

16 Cash and cash equivalents

Thousand Lit	2010	2009
Cash at bank	285	211
Cash in hand	73	184
	<u>358</u>	<u>395</u>

All account balances as at 31 December 2010 have been pledged to secure bank loans (note 18). Furthermore, cash inflows in the bank accounts are pledged to secure bank loans (note 18).

The interest rate risk encountered by the Group, related to cash and cash equivalents, is disclosed in note 25.

17 Capital and reserves

Authorized capital of the Parent Company as at 31 December 2010 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

According to the Law on Companies, holders of ordinary shares have at the shareholders meeting one voting right for one share and the right to dividends, which are declared from time to time, and to participate in capital on a winding up.

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can be used only to cover retained losses.

Share premium

Share premium is the difference between issue price and nominal value of the shares.

Revaluation reserve

Revaluation reserve is related to revaluation of buildings and is stated net of deferred tax liability.

Notes to the consolidated financial statements

17 Capital and reserves (continued)

Revaluation reserve (continued)

The reserve is decreased annually for the depreciation in respect to revalued buildings and disposal of revalued assets. The decrease is recognized as a transfer directly in equity.

When depreciating the revalued buildings, a transfer is made from the revaluation reserve to retained earnings. The amount for transfer is determined as a difference between depreciation, calculated from the restated value, and depreciation, calculated from the initial cost of the buildings.

The revaluation reserve can be used for an increase of authorized capital.

18 Interest bearing loans and borrowings

The Interest bearing loans and leasing liabilities of the Group are as follows:

Creditor	Ref.	Currency	Contractual amount, tLTL	Balance at 31-12-2010	Balance at 31-12-2009
AB SEB bankas	a)	EUR	18,283	7,442	10,270
AB bankas SNORAS	b)	EUR	2,072	3	418
AB bankas SNORAS	b)	EUR	8,386	5,757	8,001
AB bankas SNORAS	b)	EUR	1,554	-	1,208
AB bankas SNORAS	b)	LTL	350	-	350
AB SEB bankas	c)	EUR	3,459	3,027	3,459
AB bankas SNORAS	d)	EUR	5,000	2,223	-
Swedbank, AB	e)	EUR	6,300	4,434	5,681
Swedbank, AB	f)	EUR	11,999	11,200	11,800
Swedbank, AB	f)	EUR	2,000	-	845
Swedbank, AB	g)	EUR	8,300	-	1,417
AB SEB bankas ES	h)	EUR	7,078	1,346	2,389
AB SEB bankas credit line	i)	EUR	7,506	2,341	4,723
AB bankas SNORAS	j)	EUR	5,429	1,664	1,838
AB bankas SNORAS	k)	EUR	1,300	-	929
Leasing liabilities	l)			1,263	1,928
Total liabilities				40,700	55,256
Less: current part				-18,421	-32,973
Total loans and borrowings payable after one year				22,279	22,283

- a) The loan (3,475 thousand EUR) was used to re-finance the previously received loans from AB SEB Bankas and AB Bankas Snoras as well as for working capital needs. The loan is repayable in equal monthly installments, except for January and February. The loan matures on 26 December 2011. Repayment of the second part (1,820 thousand EUR) started on 30 June 2008, paying in equal quarterly installments. The loan shall be repaid by 27 April 2015. The determined interest rate is related to 6 months EURIBOR + margin. According to the loan agreement, the Group is obliged to maintain EBITDA of 13 million Litas and interest coverage ratio of 1.2 at the end of the financial year. The loan is secured by pledging property, plant and equipment (note 10), inventories (note 14), bank account balances and trademarks.

Notes to the consolidated financial statements

18 Interest bearing loans and borrowings (continued)

b) The Group was granted credit facilities (in total amounting to 3,855 thousand EUR) for working capital needs. The maturity date is 24 January 2011. The liability is secured by the primary and secondary pledge of property, plant and equipment, the land rent rights and cash at bank. In January 2011 the credit line was repaid.

c) The loan (1,002 thousand EUR) was issued to AB Vilkyškių Pieninė on 21-04-2008 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan started as of 31 March 2010, in equal quarterly installments and ends on 31 March 2015. The loan is secured by pledging buildings and equipment by secondary pledge and equipment by primary pledge. The effective interest rate is 6 months EURIBOR + margin.

d) The loan (1,448 thousand EUR) was issued to AB Vilkyškių Pieninė on 1 October 2010 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan started as of 20 October 2010, in equal quarterly installments and ends on 3 February 2017. The loan is secured by pledging buildings and equipment by secondary pledge and equipment by primary pledge. The effective interest rate is 6 months EURIBOR + margin.

e) The loan was granted to AB Vilkyškių Pieninė (1,825 thousand EUR) on 28 April 2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan starts as of 30 September 2008 in equal annual installments until 31 May 2016. The loan is secured by pledging inventories, equipment, current and future cash inflows on account at AB Swedbank, as well as 50 per cent of the shares of AB Kelmės Pieninė. The effective interest rate is 6 months EURIBOR + margin. The Group obligated to the bank to maintain debt service coverage ratio of 1.2 at the end of the financial year, equity ratio not less than 0.2 and net financial debt / EBITDA not more than 6.

f) Loans (3,475 thousand EUR and 2,000 thousand LTL) have been issued to AB Kelmės Pieninė for working capital needs. The repayment in quarterly installments is started in October 2009 and end in December 2015. The loan is secured by pledging the buildings, equipment, current and future cash balances and inventories. The effective interest rate is 6 months EURIBOR + margin.

g) The loan was repaid on 31 December 2010.

h) The loan agreement was concluded on 11 February 2006. The funds received are used for acquisition of new equipment used in whey processing, production of cheese, expansion of capacities of the workshop for acceptance of milk. To the secure the loan the Group pledged its movable and not movable assets. The loan is repayable in equal parts and matures on 20 December 2012. The Group took an obligation to maintain the annual EBITDA ratio not less than 9 million Litas. The effective interest rate is 6 months EURIBOR + margin.

i) According to the agreement, dated 14 June 2006, AB Vilkyškių Pieninė was granted a credit facility of 1,426 thousand EUR for working capital needs. The liability matures on July 2011. To secure the liability the Group has pledged its real estate and equipment by secondary pledge. The effective interest rate is 6 months EURIBOR + margin.

j) According to the loan agreement, dated 28 February 2007, UAB Modest received a loan of 2,066 thousand LTL for realization of the EU Project. Based on the same agreement with AB Bankas SNORAS a loan of 600 thousand LTL was received for working capital needs. The repayment of the loan in equal monthly installments starts on 28 March 2009 and ends by 28 November 2013. The loan is secured by pledging the buildings, equipment, inventories and cash balances. The determined interest rate on the loan is related to 6 months LIBOR + margin.

Notes to the consolidated financial statements

18 Interest bearing loans and borrowings (continued)

k) The loan was repaid on 31 December 2010.

l) Leasing agreements are mainly concluded with UAB SEB Banko Lizingas and Swedbank Lizingas and are valid until October 2013.

As at 31 December 2010 the Group had not complied with certain ratios prescribed in the loan agreements with AB SEB Bank. The non-compliance was waived by the Bank as at 31 December 2010 and an appropriate waiver consent letter was obtained.

The Group did not comply with loan recovery ratio prescribed in the loan contracts with Swedbank, AB. The non-compliance was waived by the Bank as at 31 December 2010 and an appropriate waiver consent letter was obtained.

Loan repayment schedules, except for finance lease liabilities:

Thousand Lit	2010	2009
Within one year	17,764	32,103
From 1 to 5 years	21,329	19,275
After 5 years	344	1,950
	<u>39,437</u>	<u>53,328</u>

Finance lease liabilities

The finance lease payments are as follows:

Within 1 year	682	901
From 1 to 5 years	621	1,092
	<u>1,303</u>	<u>1,993</u>
Future interest on finance lease	-40	-65
Present value of finance lease liabilities	<u>1,263</u>	<u>1,928</u>

Finance lease agreements do not contain any contingent lease payments.

Leasing interest is variable, denominated in EUR LIBOR (6 or 12 months) + margin.

Notes to the consolidated financial statements

19 Government grants

Thousand Lit	2010	2009
Carrying amount at the beginning of the period	8,203	8,894
Grants received	993	32
Amortization recognized in the income statement	-717	-548
Written down grants due to disposal of assets	-	-175
Carrying amount at the end of the period	8,479	8,203

The Group has received grants from the National Settlement Agency in respect of the Lithuanian farming development program 2004-2006. The grants were received for acquisition of property, plant and equipment.

On 28 October 2009 AB Vilkyškių Pieninė and National payment agency signed an agreement for provision of a government grant up to 6,634 thousand Lit according to project "Increase of competitiveness in milk processing". Total estimated investment project cost amounts to 33,171 thousand Lit. As at 31 December 2010 value of the completed project amounts to 4,213 thousand Lit. The Group received grants amounting to 843 thousand Lit until 31 December 2010.

The mentioned grants are amortized in proportion to depreciation of the assets acquired.

20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate in 2010 (2009: 15%), are attributed to the following items:

	Assets		Liabilities		Net value	
Thousand Lit	2010	2009	2010	2009	2010	2009
Property, plant and equipment	-	-	3,222	3,027	3,222	3,027
Vacation reserve	-193	-	-	-	-193	-
Inventories	-10	-	-	-	-10	-
Capital grants	-280	-193	-	-	-280	-193
Other accruals	-	-7	-	-	-	-7
Tax losses to be carried forward	-	-526	-	-	-	-526
Deferred tax (asset) / liabilities	-483	-726	3,222	3,027	2,739	2,301

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is lost if the Group changes its activities due to which these losses incurred except when the Group does not continue its activities due to reasons which do not depend on Group itself.

Decrease in deferred tax liability by 66 tLTL, related to revaluation of buildings, was recognized by increasing the revaluation reserve in equity. The increase in the deferred tax liability recognised in the income statement amounted to 503 tLTL.

Notes to the consolidated financial statements

21 Trade and other payable amounts, including derivatives

Thousand Litas	2010	2009
Trade payables	17,093	16,101
Employment related liabilities	3,363	2,942
Prepayments received	550	708
Payable dividends	125	125
Fair value of interest rate swap transaction	31	104
Other payable amounts and accrued costs	626	1,040
	<u>21,788</u>	<u>21,020</u>

The Parent Company received a long-term loan from SEB Bankas amounted to 3,330 tEUR. The interest rate on the loan is variable at six-month EURIBOR plus margin. The Parent Company is exposed to variability in cash flows related to changes in its forecasted interest payments as six-month EURIBOR (the benchmark interest rate) changes. Therefore, the Parent Company has made an interest rate swap agreement with the SEB bank and fixed interest rate for the mentioned long-term loan for the period from 13 June 2006 until 7 December 2011. The Parent Company pays a fixed rate of 3.55% and receives floating rate equal to six-month EURIBOR.

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 25.

22 Contingencies

As at 31 December 2010 the Group had the following material contractual liabilities:

Thousand Litas	2010	2009
Acquisition of property, plant and equipment	3,064	2,376
Purchase of raw materials	7,866	7,600
	<u>10,930</u>	<u>9,976</u>

On 28 October 2009 AB Vilkyškių Pieninė and National Settlement Agency under the Ministry of Agriculture signed an agreement for provision of a government grant up to 6,634 tLTL according to the project Increase of Competitiveness in Milk Processing. The total estimated cost of the investment project amounts to 33,171 tLTL. As at 31 December 2010 value of the completed project amounts to 4,213 thousand Litas. The Group received grants amounting to 843 thousand Litas until 31 December 2010.

The following assets were pledged as at 31 December 2010 to secure the bank loans (note 18):

- Current and future cash inflows in the accounts of different banks;
- Property, plant and equipment with the carrying amount of 51,711 tLTL;
- Inventories with the market value of 16,5 million LTL.

Notes to the consolidated financial statements

23 Staff costs

Thousand Litas	2010	2009
Staff costs are included in the following items:		
Cost of inventories	14,806	14,031
Administrative expenses	4,269	3,977
Other operating costs	366	-
	<u>19,441</u>	<u>18,008</u>

Cost of inventories is accounted for in cost of sales after the inventories are sold.

Staff costs include social security of 30.98% paid by the Group, calculated from the nominal salary of employees.

Staff costs include remuneration to the Group's management of 1,417 tLTL including social security contributions (2009: 987 tLTL).

24 Transactions with related parties

Thousand Litas	Note	2010	2009
Receivable amounts			
<i>Prepayments</i>			
ŪKB Šilgaliai	12, 14	<u>1,156</u>	<u>842</u>
		<u>1,156</u>	<u>842</u>
<i>Trade receivable amounts</i>			
ŪKB Šilgaliai (administrative fee and interest on the loan)	14	<u>-</u>	<u>137</u>
		<u>-</u>	<u>137</u>
<i>Loans raised</i>			
ŪKB Šilgaliai	12	<u>560</u>	<u>351</u>
		<u>560</u>	<u>351</u>
		<u>1,716</u>	<u>1,330</u>
Sale of raw materials, goods and services			
ŪKB Šilgaliai		<u>63</u>	<u>64</u>
		<u>63</u>	<u>64</u>
Purchase of raw materials, goods and services			
ŪKB Šilgaliai		<u>627</u>	<u>503</u>
		<u>627</u>	<u>503</u>

ŪKB Šilgaliai is a supplier of milk. The major shareholder and related persons have ownership rights to part of interests in ŪKB Šilgaliai.

Prepayments to management are accounted for in receivable amounts:

Thousand Litas	2010	2009
Other amounts receivable from management	18	611

Notes to the consolidated financial statements

25 Financial instruments and risk management

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Thousand Litas	Note	Carrying amount	
		2010	2009
Trade receivables	12,14	11,703	12,727
Other receivables	12,14	2,419	2,765
Loans raised	12	351	351
Cash and cash equivalents	16	358	395
		<u>14,831</u>	<u>16,238</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
	2010	2009
Lithuania	8,393	8,316
Latvia	2,733	2,118
Russia	344	1,247
Estonia	69	55
Other	164	991
	<u>11,703</u>	<u>12,727</u>

Impairment losses

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

Impairment losses (continued)

Ageing of trade and other receivables and granted loans as at the reporting date can be specified as follows:

Thousand Litas	Gross 31 December 2010	Impairment 31 December 2010	Gross 31 December 2009	Impairment 31 December 2009
Related parties:				
Not past due	1,716	-	1,207	-
Past due 0-30 days	-	-	2	-
Past due 31-60 days	-	-	3	-
More than 60 days	-	-	118	-
	<u>1,716</u>	<u>-</u>	<u>1,330</u>	<u>-</u>
Other parties:				
Not past due	11,653	-	12,540	-
Past due 0-30 days	781	-	961	-
Past due 31-60 days	20	-	185	-
More than 60 days	599	-296	827	-
	<u>13,053</u>	<u>-296</u>	<u>14,513</u>	<u>-</u>
	<u>14,769</u>	<u>-296</u>	<u>15,843</u>	<u>-</u>

As at 31 December 2010 impairment in relation to trade and other receivable amounts to 296 thousand LTL (2009: none).

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Thousand Litas

	Carrying amount 2010	2009
Balance as at 1 January	-	-
Impairment loss recognized	-296	-
Impairment loss derecognized	-	-
Balance as at 31 December	<u>-296</u>	<u>-</u>

Recognition and reversal of the impairment loss is recorded under administrative costs (note 6).

Based on payment history and extensive analysis of customers' solvency, the Management of the Group believes that the amounts which past due more than 30 days are not impaired.

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Group is close to or higher than 1.

The following are the contractual maturities of financial liabilities, including the estimated interest payments:

31 December 2010

Thousand Lit	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
AB SEB bankas loans	14,156	(16,492)	(1,806)	(5,660)	(2,205)	(6,821)	-
AB bankas SNORAS loans	9,647	(11,223)	(7,407)	(767)	(2,062)	(987)	-
Swedbank, AB loans	15,634	(18,127)	(1,639)	(1,883)	(3,440)	(10,624)	(541)
Finance lease liabilities	1,263	(1,303)	(373)	(309)	(452)	(169)	-
Trade and other payable amounts	21,788	(21,788)	(21,788)				
	<u>62,488</u>	<u>(68,933)</u>	<u>(33,013)</u>	<u>(8,619)</u>	<u>(8,159)</u>	<u>(18,601)</u>	<u>(541)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2009

Thousand Lit	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
AB SEB loans	20,841	(22,298)	(1,886)	(7,369)	(7,135)	(5,908)	-
AB Snoras loans	12,744	(13,379)	(2,902)	(2,805)	(6,774)	(898)	-
Swedbank AB loans	19,743	(21,407)	(3,202)	(1,096)	(4,403)	(9,655)	(3,051)
Finance lease liabilities	1,928	(1,993)	(472)	(379)	(1,005)	(137)	-
Trade and other payable amounts	21,020	(21,020)	(21,020)	-	-	-	-
	<u>76,276</u>	<u>(80,097)</u>	<u>(29,482)</u>	<u>(11,649)</u>	<u>(19,317)</u>	<u>(16,598)</u>	<u>(3,051)</u>

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

The following interest rates were applied to discount estimated cash flows:

	2010	2009
Loans and finance lease liabilities	3.5%	3%

Currency risk

The Group's exposure to the foreign currency risk was as follows (expressed in Litass' 000), using the exchange rates, valid as at 31 December 2010:

The following significant exchange rates for Litass were applied during the year:

Average

Thousand Litass	31 December 2010			31 December 2009		
	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>
Long-term receivables	1,487	-	-	1,421	-	-
Trade and other receivables	9,347	2,933	706	10,805	2,929	1,086
Cash and cash equivalents	323	35	-	254	141	-
Interest bearing loans and finance lease liabilities	(1,664)	(39,036)	-	(4,103)	(51,153)	-
Trade and other payables	(18,222)	(3,566)	-	(19,318)	(1,702)	-
Net exposure	(8,729)	(39,634)	706	(10,941)	(49,785)	1,086

Currency exchange rates during the year were as follows:

	2010	2009
EUR	3.4528	3.4528
LVL	4.8643	4.8191

The following exchange rates were applied as at 31 December:

	2010	2009
EUR	3.4528	3.4528
LVL	4.8643	4.8679

Sensitivity analysis

A 10 percent strengthening of the Litass against the following currencies at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

Sensitivity analysis (continued)

31 December 2010	Profit (loss)
Effect in Thousand Litas	
EUR	3,963
LVL	(71)

31 December 2009	Profit (loss)
Effect in Thousand Litas	
EUR	4,979
LVL	(109)

A 10 percent weakening of the Litas against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The functional currency of the Parent Company and subsidiaries is Litas (LTL). As exchange rate of LTL to EUR is fixed at 3.4528 LTL / EUR, the Group faces foreign currency risk on purchases and sales that are denominated in currencies other than EUR. The main part of the Group's transactions in 2010 year are denominated in LTL and EUR, therefore the Group is not exposed to significant foreign currency exchange risk.

Interest rate risk

The Group's borrowings bear variable interest rates related to LIBOR varying from LIBOR + margin. The average effective interest rates in 2010 were close to the actual interest rates.

The Group has entered into an interest rate swap agreement with a bank, by which it partly hedges from significant interest rate fluctuations. The fair value of the interest rate swap agreement, amounting to 31 tLTL, is recognized under trade and other payables, including derivatives caption.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

Interest rate risk

Thousand Litas	Carrying amount	
	2010	2009
Fixed rate financial instruments		
AB Bankas Snoras loan	-	350
	-	350

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

Thousand Lit	Carrying amount 2010	2009
Variable rate financial instruments		
SEB loans	14,156	20,841
Swedbank loans	15,634	19,743
AB Bankas SNORAS loans	9,647	12,394
Finance lease liabilities	1,263	1,928
	40,700	54,906
	40,700	55,256

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

Effect in thousand Lit	Profit (loss)	
	100 bp increase	100 bp decrease
31 December 2010		
Variable rate instruments	(407)	407
31 December 2009		
Variable rate instruments	(549)	549

Fair value of financial instruments

The Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

Financial instruments stated at fair value as at 31 December 2010 comprise derivatives. The Group does not have any other financial instruments stated at fair value as of 31 December 2010 and 2009.

The management of the Group is of the opinion that book values of trade and other receivables, trade and other payables as well as borrowings approximate their fair value.

Notes to the consolidated financial statements

25 Financial instruments and risk management (continued)

Fair value of financial instruments (continued)

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position can be summarized as follows:

Thousand Lit	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term receivables	1,487	1,487	1,421	1,421
Trade and other receivables	12,986	12,986	14,820	14,820
Cash and cash equivalents	358	358	395	395
Interest bearing loans and finance lease liabilities	(40,700)	(40,700)	(55,256)	(55,256)
Trade and other payables	(21,788)	(21,788)	(21,020)	(21,020)
	<u>(47,657)</u>	<u>(47,657)</u>	<u>(59,640)</u>	<u>(59,640)</u>

Financial liabilities to banks and leasing companies are related to variable interest rate, therefore the carrying amount approximates the fair value. The management is of the opinion that the fair value risk was minimal as at 31 December 2010 as the major part of financial liabilities bear a variable interest rate.

Price risk

Prices of milk and dairy products vary depending on a situation in the market. The Group seeks to minimize an impact of such price fluctuations by diversifying production and striving for scale economy.

Capital management

The Board's policy is to maintain a strong capital base, in comparison with the borrowed means, so as to maintain investor, creditor and market confidence, to sustain future development of the business and to comply with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

The Group has externally imposed capital requirements from banks. They require that (equity – revaluation reserve) / (total assets) ratio is not less than 0.2. The management monitors that the Group is in line with the requirement. No other capital management tools are used.

Notes to the consolidated financial statements

26 Subsequent events

In January 2011 the Group repaid a loan, amounting to 5.75 million Litass, raised by AB bankas SNORAS.

On 20 January 2011 the subsidiary AB Modest concluded a loan agreement with Nordea Bank Finalnd Plc. According to this agreement, AB Modest was granted a credit facility of 1,740 thousand EUR for acquisition of equipment and working capital. Repayment of the loan starts on 20 January 2012 and ends by 20 January 2016. The determined interest rate on the loan related to EURIBOR + margin.

There have been no other significant events subsequent to the end of the reporting period date that could materially affect the financial statements as at and for the year ended 31 December 2010.

There were no other significant events after the reporting date.

AB Vilkyškių Pieninė
Consolidated annual report for the year 2010

I. Letter of the Director General G. Bertasius of Vilkyškių pieninė AB to the Investors

In 2010 Group of Vilkyškių Pieninė reached impressive 53.3 percent of income growth and earned 11,87 million Litass of consolidated profit (in 2009 – 6,7 million Litass). Successful work of Group was determined by fact that the Group processed more raw milk and produced more dairy products and managed to successfully sell its production in local and export markets. Increased level of prices is also important factor of growth.

Number of employees comparing with year 2009 increased and at the end of year 2010 there were 755 employees:

- ✓ AB Vilkyškių pieninė – 453 employees;
- ✓ AB Modest – 135 employees;
- ✓ AB Kelmės pieninė – 167 employees.

In 2010 the Company implemented some innovations. In spring it offered to market glazed sweet curd, and at the end of the year, when cheese cutting and packing equipment was equipped, it offered sliced cheese slices in firm packs. One more also important innovation is fixed weight cheese slices of small pre-packing.

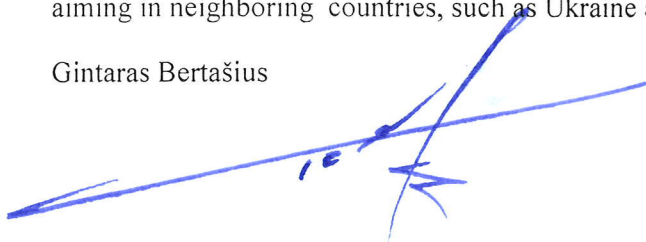
In 2010 new cheese storage – ripening chambers were started to equip. They are designed for cheese with colored cheese cover. In 2011 more ripening chambers will be equipped and Vilkyškių Pieninė could be able to produce more surplus value cheese (such famous and recognized as “Prūsija” “Žalgiris”, “Legenda”).

Also in 2011 warehouse management system will be completed, the main aim of this system is to significantly increase effectiveness of warehouse work. There will be avoid mistakes which recently are influenced by human factor, orders will be made more rapid and more precisely. Investments to new curd pre-packing equipment will be exercised also it is planned expansion of cheese production shop-floor.

One more important innovation is establishment of marketing detachment. After acquisition of AB Kelmės Pieninė three years ago, Vilkyškių Pieninė Group entered into market of fresh dairy products, requiring active actions of marketing. Group has ambitious aims to develop its trade marks, to introduce innovations and successfully compete in fresh dairy products and in cheese market both in Lithuania and in foreign countries.

Vilkyškių Pieninė Group is planning to continue development in export markets, firstly aiming in neighboring countries, such as Ukraine and Belarus, also in other further regions.

Gintaras Bertasius



II. GENERAL INFORMATION ABOUT THE ISSUER

1. Accounting period for which the annual report has been prepared

The report has been prepared for the year 2010.

Acquaintance with statement and other documents

Acquaintance with statement and other documents, which have been used for the preparation of the statement, is possible at Vilkyškių Pieninė AB, the address of which is Vilkyškiai, Pagėgių municipality, on weekdays from 8.00 to 16.30, and on the internet site of Vilkyškių pieninė AB, the address of which is: <http://www.cheese.lt/investuotojams>.

Mass communication: daily newspaper “Lietuvos Žinios” (*The News of Lithuania*).

Persons responsible for information presented in this financial statement:

General Director of Vilkyškių Pieninė AB - Gintaras Bertašius, tel. (8 441) 55330, fax (8 441) 55242.

Finance Director of Vilkyškių Pieninė AB - Vilija Milaševičiutė, tel. (8 441) 55102, fax (8 441) 55242.

2. Key data about the Issuer

AB Vilkyškių Pieninė

Name of the Issue	Public Limited Company Vilkyškių pieninė (hereinafter referred as to the Company or Issuer)
Authorized capital	11,943,000 LTL
Registered office	Vilkyškiai, Pagėgiai municipality
Telephone number	8-441 55330
Fax number	8-441 55242
E-mail address	centras@cheese.lt
Legal – organizational form	public limited company
Date and place of registration	The 10 th of May 1993
Date and place of re-registration	The 30 th of December 2005, Taurage Subsidiary of State Enterprise Center of Registers
Registration No.	060018
Code in the Register of Enterprises	277160980
Internet address	http://www.cheese.lt ; http://www.suris.lt

AB Modest

Name of the subsidiary	Public limited company Modest (hereinafter – AB Modest)
Authorized capital	5,617,118 LTL
Registered office	Gaurės 23, Tauragė
Telephone number	8-446 72693
Fax number	8-446 72734
E-mail address	modest@cheese.lt
Legal – organizational form	Public limited company
Date and place of registration	25 March 1992
Date and place of re-registration	31 December 2009, Taurage Subsidiary of State Enterprise Center of Registers
Registration No.	017745
Code in the Register of Enterprises	121313693
Internet address	http://www.cheese.lt ; http://www.suris.lt

AB Kelmės Pieninė

Name of the subsidiary	Public limited company Kelmės Pieninė (hereinafter – AB Kelmės pieninė)
Authorized capital	2 494 808 LTL
Registered office	Raseinių g. 2, LT-86160 Kelmė
Telephone number	8-427 61246
Fax number	8-427 61235
E-mail address	kelmespienine@takas.lt
Legal – organizational form	Public limited company
Date and place of registration	3 August 1993, Siauliai Subsidiary of State Enterprise Center of Registers
Date and place of re-registration	2007-07-04 (issue of new registration certificate)
Registration No.	110109
Code in the Register of Enterprises	162403450
Internet address	http://www.cheese.lt ; http://www.suris.lt

3. Nature of the Issuer's core business

Core business of Vilkyškių pieninė AB is production of dairy products.

The Group of Companies also produces fermented cheese, melted cheese, curd, butter, sour cream, scalded cream and other fresh dairy products. The Company also processes whey.

4. Contracts with intermediaries of the public circulation of securities

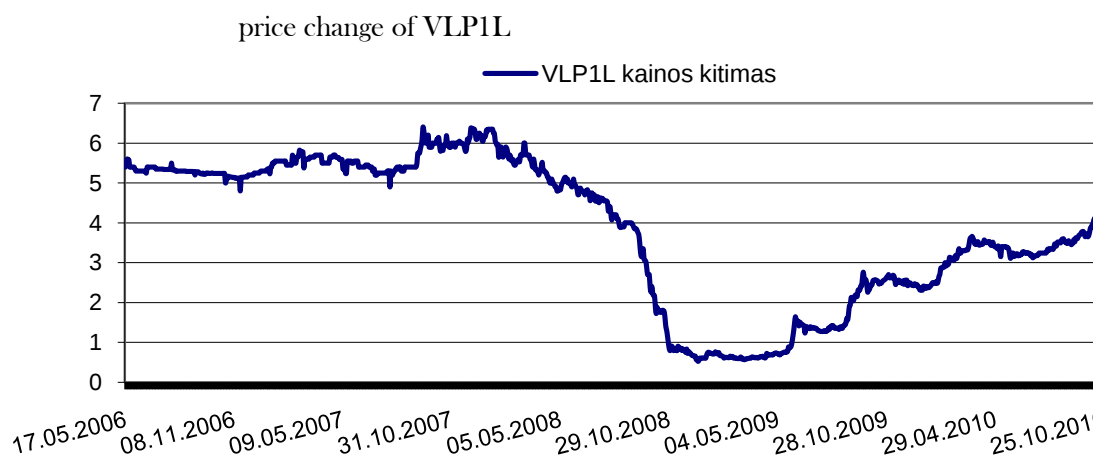
Vilkyškių pieninė AB has entered into the contract of service with Financial Broker Company Orion Securities UAB (address: A. Tumeno g. 4, B korp., LT-01109, Vilnius) on the record of shareholders of Vilkyškių pieninė AB.

On the 15th of October 2007 Vilkyškių pieninė AB entered into the contract with Financial Broker Company Orion Securities UAB on the market making.

5. Trading in the Issuer's securities on the regulated markets

Trading in ordinary registered shares of Vilkyškių pieninė AB on Vilnius Stock Exchange:

Period	Price (Lt)		Revenue (Lt)	
	highest	lowest	highest	lowest
2006.05.17 - 2006.09.31	5.60	4.60	647,808	0.00
2006.10.01 - 2006.12.31	5.30	4.76	360,722	0.00
2007.01.01 - 2007.03.31	5.82	5.20	126,233	0.00
2007.04.01 - 2007.06.30	5.70	5.01	380,555	0.00
2007.07.01 - 2007.09.30	6.50	4.80	3,621,100	0.00
2007.10.01 - 2007.12.31	6.70	5.75	637,638	0.00
2008.01.01 - 2008.03.31	6.40	5.00	1,507,303	0.00
2008.04.01 - 2008.06.30	5.52	4.51	237,964	0.00
2008.07.01 - 2008.09.30	4.75	2.05	324,605	0.00
2008.10.01 - 2008.12.31	2.50	0.52	69,650	0.00
2009.01.01 - 2009.03.31	0.79	0.52	241,806	0.00
2009.04.01 - 2009.06.30	1.69	0.60	83,134	0.00
2009.07.01 - 2009.09.30	2.86	1.25	557,512	0.00
2009.10.01 - 2009.12.31	2.75	2.27	66,144	0.00
2010.01.01 - 2010.03.31	3.70	2.32	232,788	0.00
2010.04.01 - 2010.06.30	3.67	2.95	74,358	0.00
2010.07.01 - 2010.09.30	3.80	3.01	105,718	0.00
2010.10.01 - 2010.12.31	6.04	3.76	536,451	0.00



6. Securities that do not signify the participation in the authorized capital

Securities, which do not signify the participation in the authorized capital but the circulation of which is regulated by the Law on the Market of Securities of the Republic of Lithuania, have not been issued.

7. Secondary circulation of securities of the Issuer

Securities issued by the company have been included into the Current Trade List of Vilnius Stock Exchange since the 17th of May 2006. ISIN code of securities is LT0000127508. From the 1st of January 2008 shares of Vilkyškių pieninė AB have been quoted in the Official List of Vilnius Stock Exchange.

The name of securities: Ordinary Registered Shares of Vilkyškių pieninė AB. The number of securities - 11,943,000 units. Nominal value of one share is 1.00 Lt.

III INFORMATION ABOUT THE ISSUER'S ACTIVITIES

8. Legal basis for the Issuer's activities

In conducting its business Vilkyškių pieninė AB follows the legislation of the Republic of Lithuania, government's resolutions and regulatory enactments, which regulates the activity of companies, Law on Securities Market of the Republic of Lithuania, and Articles of Association.

9. Brief description of the Issuer's history

The history of Vilkyškiai dairy was renewed on the 10th of May 1993 when public company Vilkyškių pieninė was established in the dairy premise, which was built in 1934. The old dairy had implemented its production till 1985. During the period of dairy's closure all equipment were disassembled. The buildings were privatized and the owners of the dairy brought the first machinery from Eastern Germany where the restructurization of milk industry took place at that time.

The company had no initial capital. The company started operating as the owners of the company purchased the buildings. The company borrowed the needed circulating assets from banks.

Significant events in the history of the Issuer

In 1993 – 1995 the water tower, boiler-house and separation workshop were rebuilt. Since then the company started separating milk and cheese workshop started operating. The company started producing fat-low fermented cheese *Peptatas*. Butter production workshop was launched.

Afterwards the development of the company has accelerated. In 1997 the cheese workshop of the company started producing *Tilsit* type fermented cheese and in February 1998 *Gouda* type fermented cheese.

In 1997 LTL 2,87 million were invested into the company, LTL 0,5 million of which were used for the repair of the company. The company built the following: a modern boiler-house of Danish company BWE, a modern freezing chamber of Dutch company, where 400 tonnes of production can be stocked and warehoused, and a substation. The company also installed a computer network;

In 1998 nearly LTL 1,5 million were invested into motor transport, buildings, milk refrigerators, production equipment, new cheese workshop and other non-current assets;

In 1999 nearly LTL 8,5 million were invested. Almost all investment was used for the implementation of the project of new cheese production workshop ("Tetra Pak Tebel").

In 2000 LTL 3,84 million were invested into the construction of new workshops and into the major repairs. The company finished installing new fully computerized and automated technological line of cheese production, the installation of which provided the company with the possibility to produce western standards corresponding production and to export it to the European Union;

In May of the same year the company received Export Licence to the European Union;

In June 2001 the company acquired Taurage workshop from Mazeikiai subsidiary of Pieno Zvaigždės AB. This workshop was built in 1965 as a creamery and it corresponds with all

raised requirements. In the end of the year 2001 the company started producing mould cheese in Taurage workshop. In 2003 the company reconstructed freezing chamber. In 2004 the company carried out roof reconstruction and repair of buildings.

In 2003 -2004 the company additionally invested in the infrastructure of milk production. The company built new stations of milk purchase and bought modern transport for milk transportation.

In 2004 the company built new modern waste water treatment plant of Dutch company “New Water Technology”, which corresponds with the EU requirements. In the same year the company invested in the equipment of cheese packing and wrapping.

In **2005** the company reconstructed the boiler-house of Taurage workshop by changing the type of fuel.

In **2006** Vilkyškių pieninė AB received the support of LTL 3,45 million from the European Union Structural Funds for the modernization of cheese production workshop and whey processing project.

The first stage of the Project – modernisation of the cheese production technologies – was completed in 2006. During the process of modernisation, which lasted for more than half of the year, the workshop of AB Vilkyškių Pieninė underwent significant development works: installation of two new cheese production facilities, three new pressing lines and buffer capacity, a new technological line washing station. Furthermore, the company automated the cheese salting workshop as well as the cheese loading/unloading process. Upon completion of the mentioned modernisation, the maximum production capacities of the Company increased from 10 to 14 thousand tons of cheese per year.

In the beginning of 2007 the Company realised the second stage of modernisation – the whey processing Project. . The total value of the mentioned workshop of Vilkyškių pieninė AB is more than 8 million LTL. Investments provided the company with possibility to increase far better the effectiveness of production and production quality control, moreover, it allowed effective reduction of waste. Until present, the Company has not carried out processing of whey. The new whey processing workshop is almost fully automated and has only two employees.

As of 17 May **2006**, 9,353,000 ordinary registered shares of AB Vilkyškių Pieninė are listed in the Current Trade List of Vilnius Stock Exchange. As of 1 January 2008 the shares are listed in the Official List of Vilnius Stock Exchange.

In January **2006** the Issuer acquired 80.25 percent of Modest AB shares. According to the decision No. 1S-3 made by the Competition Board on 12/11/2006, the Issuer has a right to acquire up to 100 percent of Modest AB shares. Now AB Vilkyškių pieninė holds 99.7% voting rights of the subsidiary.

In **2007** the subsidiary of AB Vilkyškių Pieninė - AB Modest was granted a support of 2,1 million LTL from the EU structural funds, which were used for modernisation of specialised depot for transportation of milk and dairy products, modernisation of production equipment (the company installed new milk processing equipment and a packing line for its main product „Mozzarella“ cheese). The mentioned modernisation complies with the strategy of Vilkyškių Pieninė Group to produce products with higher surplus value. The support received from the EU structural funds makes 44 % of the total value of the Project carried out by AB Modest. The first part of the support was received in the beginning of 2008 and the second was received in the beginning of 2009.

In March **2008** AB Vilkyškių Pieninė received a permission from the Competitions Board for acquisition of 99,09 % of AB Kelmės Pieninė shares and of its subsidiary Kelmės Pieno Centras, and successfully realised the emission of 2,6 million shares to finance the mentioned acquisition.

The new emission was acquired by Finasta Investicijų Valdymas, the SEB funds and a private investor Linas Strėlis, all becoming shareholders of AB Vilkyškių Pieninė. The shares were acquired at a price of 5.40 LTL for one share, and the value of the total emission amounted to 14 million LTL. After the new emission of shares the authorised capital of AB Vilkyškių Pieninė has increased up to 11,943 million LTL.

On 28 April of **2008** Vilkyškių Pieninė AB finally finished the transaction of the acquisition of Kelmės Pieninė AB and took an ownership to 99.09 percent of company's shares. The Group of Vilkyškiai now consists of four companies: Vilkyškių Pieninė AB, Modest AB, and Kelmės Pieninė AB.

In **2009** Modest AB, the subsidiary of Vilkyškių pieninė AB increased its share capital from 128,408 to 488,710 and in 2010 increased its share capital by addition cash contributions by Vilkyškių pieninė AB. The share capital has been increased from 617 118 LTL till 5 617 118 LTL.

2009 – the grant agreement was signed with the National Paying Agency under the Ministry of Agriculture in respect of the first area of activities “Processing and marketing of agricultural products” of the facility “Processing of agricultural products and increase of added value” of the Lithuania's Rural Development Programme for the year 2007-2013. During 2010, the 4.2 million litas support was fully absorbed. In December 2010, the support of 0.8 million litas was received.

2010 – AB Vilkyškių Pieninė established the marketing and quality departments. Major investments were made in the refrigeration Equipment, cheese cutting and packaging line, and the project of warehouse management system implementation was launched.

10. The activity of the Issuer

The main activity of the Issuer is the production of dairy products.

AB Vilkyškių Pieninė specialises in production of fermented cheese, and also produces scalded cream and processes whey. AB Modest produces melted cheese, smoked cheese and cheese Mozzarella. AB Kelmės Pieninė produces fresh dairy products – different types of curd products, sour cream, butter, kefir, yogurt, covered curd cheese.

The whole assortment of goods of AB Vilkyškių Pieninė Group comprises even 16 types of cheese having 76 different names of products, also 13 types of butter and butter mixtures, 5 types of sour cream and 17 types of curd products.

The group of companies may process 530 tones of milk within 24 hours. The utilization of the maximum capacity was limited by raw milk shortage in winter season (in winter, less milk is purchased than in summer), but recently the raw material is purchased outside Lithuania, in the European Union.

Tables bellow summarizes key consolidated indicators of production and trade volumes of the Issuer.

Within the period of last five years the quantities of purchased milk were as follows:

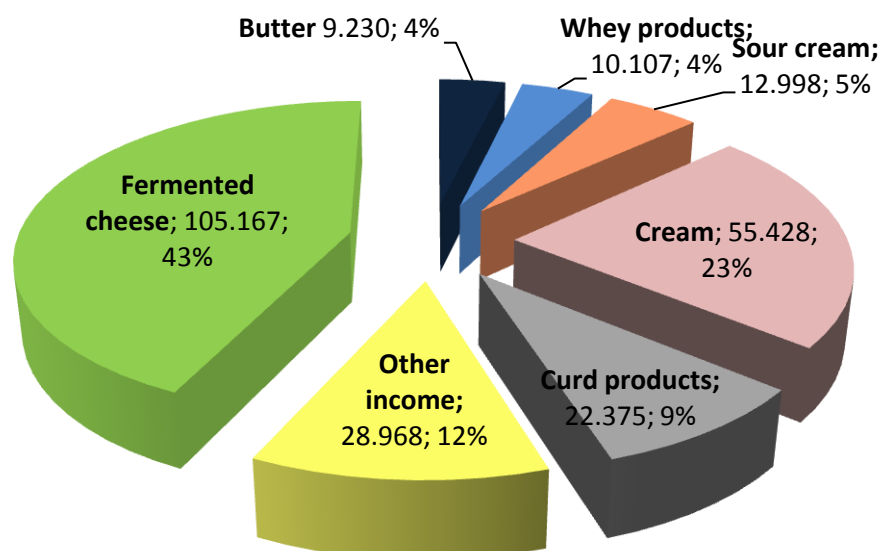
Purchased raw milk (recalculated into base fatness)	2006	2007	2008	2009	2010
Purchased milk, in tons	126,707	105,638	139,705	151,150	181,643
Purchased milk, in tLTL	75,592	75,619	95,603	77,705	153,784
Price of purchased milk, in LTL/t	596.6	715.8	684.0	514.1	846.6

Within the period of last five years the distribution of production of Vilkyškių pieninė AB according to product type was as follows:

Amount of produced products, expressed in tons	2006	2007	2008	2009	2010
Fermented cheese	10,341	8,317	10,710	9,279	11,979
Butter	587	630	749	1,151	1,230
Cream	4,831	5,499	5,774	6,479	10,684
Whey concentrate		14,534	27,266	27,163	38,255
Sour cream			2,150	3,702	3,030
Curd products			1,618	3,770	3,247

Income from sale of production during 5 years period as per type of product:

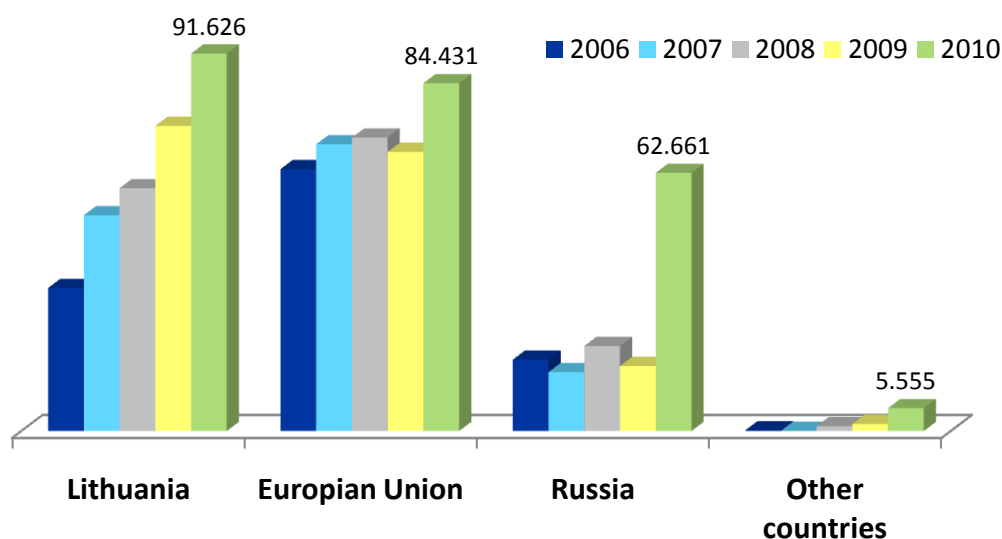
Income from sold production, expressed in LTL thousand	2006	2007	2008	2009	2010
Fermented cheese	88,141	86,193	95,040	78,543	105,167
Butter	3,502	4,127	6,632	8,467	9,230
Cream	19,454	32,436	22,492	23,387	55,428
Whey products	1,975	6,533	4,543	4,306	10,107
Sour cream			8,662	13,864	12,998
Curd products			10,237	22,631	22,375
Other income	2,647	6,985	4,375	8,120	28,968
Total income	115,719	136,274	151,981	159,318	244,273



11. Sales markets

Sale income according to the geographical segments, expressed in LTL thousand

Market	2006	2007	2008	2009	2010
European Union	63,559	69,594	71,238	67,763	84,431
Lithuania	34,713	52,367	58,938	74,067	91,626
Russia	17,310	14,279	20,630	15,775	62,661
Other countries	137	34	1,175	1,713	5,555
Total	115,719	136,274	151,981	159,318	244,273



Sales of AB Vilkyškių Pieninė in the Russian market are carried out based on long-term sales agreements. Sales in the EU countries are performed based mainly on short-term agreements, and in the Lithuanian market – based on the agreements the duration of which varies from 1 year.

12. Supply

The main raw material used for the production of products of Vilkyškių pieninė AB is raw cow milk. The major suppliers of milk are small and big farmers, agricultural companies and other companies of milk purchase. Vilkyškių pieninė AB purchases milk on the milk purchase contracts. Contacts with milk suppliers are concluded for a period of one year or for a longer period.

The company purchases other raw materials mostly in Lithuania. The amount of raw material purchased from foreign countries is small. The company usually purchases equipment from foreign countries. Contracts usually are concluded for a period of one year. However, the company performs the accidental transactions as well.

13. Real estate and other non-current assets

The statement of changes in non-current assets of AB Vilkyškių Pieninė is presented in the annual financial statements AB Vilkyškių pieninė.

14. Risk factors related to the activity of the Issuer

Risk factors related to Company's business

- The main Company's activity is milk processing (production of fermented cheese). The main factors creating business risk are possible changes in the raw material and product markets, as well as legal, political, technological and social changes, which are directly or indirectly related to the business of Vilkyškių pieninė AB and which are likely to affect Company's cash flows and operating results.
- The Company is specializing in the production of cheese. The largest part of its income is received from the sale of cheese and cheese products. Due to this reason company's income and profit is sensitive to negatives changes in demand and (or) in cheese prices in the market (market risk). The price of cheese can also be negatively affected by the competition in the international and in local cheese market.
- Production of fermented cheese is a time consuming process which can take from 1 to 3 months. Such production particularity does not allow reacting quickly to rapid changes in the cheese market and this can negatively affect Company's cash flows and operating results.
- Company's credit risk is related to receivable amounts of trade. The risk that business partners would not meet their financial obligations is controlled by established procedures of control. Credit risk, related to assets held in banks, is limited because the Company works only with the largest Lithuanian banks (mainly with AB SEB Bankas). As at 31 December 2010 the total liabilities and the total assets ratio was 0,60. Interest on all major loans are related to EUR LIBOR. The balance of financial liabilities amounted to 40,700 tLTL as at 31 December 2010. The loans are denominated in EUR. Repayment of loans is carried out as to time Schedule. There are no overdue payments.
- Foreign exchange risk. Operations with foreign currency are evaluated in LTL according to the exchange rate of operation date. Cash and liabilities denominated in foreign currency are evaluated in LTL applying exchange rate of the balance sheet formation date. Profit or loss from the currency exchange fluctuation is accounted in the profit (loss) statement. The main part of Company's income is received in EUR. The Company does not carry out such foreign currency transactions that could significantly affect the Company's financial results due to exchange rate fluctuations.

15. The main investments of Vilkyškių pieninė AB during the last 4 years:

In 2007 Vilkyškių pieninė AB invested about 8 million LTL in whey processing workshop, 1,3 million LTL in milk collection equipment and 0,5 million LTL in packaging and vacuum equipment.

In 2008 AB Modest introduced a new line for production of Mozzarella cheese. The value of the Project amounts to approximately 4 million LTL, out of which 1,5 million LTL was received from the EU structural funds as support.

In 2009 there were no investments exceeding 10 % of the Issuer's authorised capital.

In 2010 1 million litas was invested in the development of energy sector (cold, heat, electricity). Cheese packaging line was acquired for almost 2 million litas.

16. Patents, licences, contracts

On the 8th of May 2000 the company received Export Licence to the European Union which provided the company with the right to export its production to the European Union. The company has introduced quality management programme (Hazard Analysis Critical Control Points System).

On the 14th of October 2004 an inspection due to the conformity with the requirements and certification of production to Russian market was carried out by the Russian National Veterinary Inspectorate.

On the 18th of May 2004 Taurage workshop of Vilkyškių pieninė AB was granted a EU veterinary certificate.

In 2007 the main evaluation has been carried out in Vilkyškių pieninė AB in order to receive ISO Certificates of Quality Management and Food Safety Management. These certificates were presented in January 2008.

ISO 9001 Standard of Quality Management specifies requirements for quality management systems, including documentation requirements and requirements for processes of planning, management of resources, product realization, measurement, analysis and improvement. This certificate demonstrates that a company is capable of managing and improving the quality of its supplied products and services, and its production meets with requirements of customers and the law.

ISO 22000 Standard of Food Safety Management System demonstrates that food safety risk is identified, measured and controlled in the entire food management chain of Vilkyškių pieninė AB. This current certificate aims at ensuring food safety within the entire chain of food production and supply in order to ensure that food is safe at the time of human consumption. This standard is applied to all types of organizations within the food chain, i.e. for producers of food and food packages.

In 2009 the Company underwent ISO audits which stated the Company complies with the requirements of the standards ISO 9001:2000 and ISO 22000:2000.

On 18 September 2009 AB Vilkyškių Pieninė was visited by experts of the Russian Federal Veterinarian and Phytosanitarian Service who performed a review of the Company. During the review the experts assessed the sanitary state of the Company as well as compliance of production, auxiliary, ripening and storing premises with the Russian norms and requirements. The audit included examination of the Company's documentation from raw materials, additions and other consumable materials to product realisation.

The mentioned audit of the Russian Federal Veterinarian and Phytosanitarian Service did not result in any discrepancies. The experts concluded that the Company's operations are carried out in accordance with the requirements of the Russian Federal Veterinarian and Phytosanitarian Service.

In 2010 AB Kelmės pieninė received Export Licence to export production to Russia.

17. Competitors

Based on the calculation of Vilkyškių Pieninė AB, the company holds about 18 percent of Lithuania's cheese market, i.e. it ranks fourth among the producers, after Rokiškio Sūris AB, Pieno Žvaigždės AB and Žemaitijos Pienas AB. The Company holds approximately 12% of the local market among the companies producing fresh dairy products.

In foreign markets Vilkyškių pieninė AB has to compete with local producers, whose advantage is lower transportation expenses. However, Vilkyškių pieninė AB compensates this fact by offering higher value added cheese assortment.

18. Dividends paid

Vilkyškių pieninė AB has no preferred shares, thus dividends are paid only for ordinary registered shares.

Payment of dividends within the last 5 years is as follows:

Dividends	2006 (for 2005)	2007 (for 2006)	2008 (for 2007)	2009 (for 2008)	2010 (for 2009)
Dividends (LTL)	2,500,000	2,057,660	2,030,310	0	1,194,300
Dividends per share (LTL)	0.27	0.22	0.17	0	0.10
Number of shares	9,353,000	9,353,000	11,943,000	11,943,000	11,943,000

AB Modest and AB Kelmės Pieninė have not paid dividends for the previous 5 years.

IV OTHER INFORMATION ABOUT THE ISSUER

19. Structure of the Issuer's authorized capital

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)	ISIN code
Ordinary registered shares	11,943,000	1.00	11,943,000	LT0000127508

AB Modest structure of authorised capital

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)
Ordinary registered shares	5,617,118	1.00	5,617,118

AB Kelmės Pieninė structure of authorised capital

Type of shares	Number of securities	Nominal value (in LTL)	Total nominal value (in LTL)
Ordinary registered shares	2,494,808	1.00	2,494,808

20. Restrictions to transfer the securities

There are no restrictions to transfer the securities.

21. Shareholders

AB Vilkyškių Pieninė

The total number of shareholders as at 31 December 2010 was 888. The following were the major shareholders who had an ownership or held more than 5 per cent of Company's share capital:

Shareholder	Shares	Nominal value in LTL	Total value in LTL
Gintaras Bertašius	6,016,506	1	6,016,506
UAB FMĮ Orion Securities clients	1,757,938	1	1,757,938
Linas Strėlis	1,015,000	1	1,015,000
Skandinaviska Enskilda Banken AB	1,000,036	1	1,000,036
Group of Finasta	704,692	1	704,692
Non-controlling interest	1,448,828	1	1,448,828
Capital in total	11,943,000	1	11,943,000

AB Modest

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
AB Vilkyškių Pieninė	5,601,277	1	5,601,277
Non-controlling interest	15,841	1	15,841
Total capital	5,617,118	1	5,617,118

AB Kelmės Pieninė

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
AB Vilkyškių Pieninė	2 472,122	1	2,472,122
Non-controlling interest	22,686	1	22,686
Total capital	2,494,808	1	2,494,808

22. Basic characteristics of shares issued into public circulation of securities

Securities issued by the Company have been included into the Current Trade List of Vilnius Stock Exchange since the 17th of May 2006. ISIN code of securities is LT0000127508.

In December 2007, as the company submitted the request to Vilnius Stock Exchange, the Company's securities were allowed to be included in the Official Trade List form since 1st of January.

Name of securities – ordinary registered shares of AB Vilkyškių Pieninė. The number of securities: 11,943,000 units. Nominal value of one share is 1.00 LTL.

Period		Price, Lt			Turnover, Thousand Lt			Total turnover		Capitaliza- tion.,LTL
From	To	Max.	Min.	Last	Max.	Min.	Last	Units	LTL	
2006 05 17	2007 04 20	5.82	4.60	5.65	647.8	0	0	531,008	2,821 161.1	52 844,450
2007 01 01	2007 03 31	5.82	5.20	5.70	126.2	0	0	56,635	312,038.60	53,312,100
2007 04 01	2007 06 30	5.70	5.01	5.20	380.5	0	20,4	167,957	930,576.20	48,635,600
2007 07 01	2007 09 30	6.50	4.80	5.90	3,621.1	0	25,6	1,647,863	9,163,708.70	55,182,700
2007 10 01	2007 12 31	6.70	5.75	6.20	637.6	0	1,8	455,408	2,762,468.40	57,988,600
2008.01.01	2008.03.31	6.40	5.00	5.30	1,507.3	0	12,3	693,973	3,848,098.20	49,570,900
2008.04.01	2008.06.30	5.52	4.51	4.70	237.9	0	15,5	244,910	1,209,573.10	56,132,100
2008.07.01	2008.09.30	4.75	2.05	2.26	324.6	0	3,1	245,700	912,782.90	26,991,180
2008.10.01	2008.12.31	2.50	0.52	0.60	69.6	0	0	731,354	696,019.00	7,165,800
2009.01.01	2009.03.31	0.79	0.52	0.63	241.8	0	0,5	1,040,145	660,301.90	7,524,090
2009.04.01	2009.06.30	1.69	0.60	1.35	83.1	0	2,6	531,304	566,948.80	16,123,050
2009.07.01	2009.09.30	2.86	1.25	2.32	557.5	0	0	1,024,019	1,954,451.20	27,707,760
2009.10.01	2009.12.31	2.75	2.27	2.4	66.1	0	4,8	196,588	486,477.70	28,663,200
2010.01.01	2010.03.31	3.70	2.32	3.44	232.8	0	51,0	560,120	1,774,753.38	41,083,920
2010.04.01	2010.06.30	3.67	2.95	3.15	74.4	0	1,9	304,724	1,029,921.99	37,620,450
2010.07.01	2010.09.30	3.80	3.01	3.76	105.7	0	11,2	256,077	908,624.48	44,905,680
2010.10.01	2010.12.31	6.04	3.76	5.939	536.5	0	43,8	561,112	2,666,879.28	70,929,477

23. Shareholders who have special rights of control

There are no shares which would provide the shareholders with special rights of control.

24. Voting right restrictions

There are no restrictions of voting right.

25. Inter-agreements of shareholders which are known to the Issuer and due to which transfer of securities and voting right may be restricted.

There are no inter-agreements of shareholders which are known to the Issuer and due to which transfer of securities and voting right may be restricted.

26. Order of amendment of the Issuer's Articles of Association

The Issuer's Articles of Association can be amended during the General Meeting of the Shareholders. Decisions on the amendments of the Articles of Association are considered to be taken if 2/3 of votes of all shareholders are received.

27. Management Bodies of the Issuer

Board:

Name, surname	Education, speciality	Position held in the Issuer	Start of tenure	Finish of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	30/04/2010	30/04/2014
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	30/04/2010	30/04/2014
Rimantas Jancevičius	Further education, zoo - technician	Member of the Board, Stock Director	30/04/2010	30/04/2014
Vilija Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director	30/04/2010	30/04/2014
Andrej Cyba	Higher education	Member of the Board	30/04/2010	30/04/2014
Linas Strėlis	Higher education	Member of the Board	30/04/2010	30/04/2014

Key administration staff of AB Vilkyškių Pieninė:

Name, surname	Education, speciality	Position held in the Issuer	Beginning of service*
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Management Board, Director General	01/01/2006**
Vaidotas Juškys	Higher education, IT engineer	Chief operation officer (COO)	17/05/2010
Vilija Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director	01/05/2000
Rimantas Jancevičius	Further education, zoo - technician	Member of the Management Board, Stock Director	02/01/1996
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Management Board, Technical Director	01/09/1993
Arvydas Zaranka	Further education, Technologist of dairy products	Production Director	30/07/1995
Alvydas Eičas	Higher education, Pedagogy	Sales manager for Baltic countries	01/09/2004
Arminas Lunia	Higher education, Chemist	Export manager	20/08/2007
Elena Šilovaitė	Higher education, Business Management and Administration	Head of Marketing Department	19/07/2010
Jolita Valantinienė	Higher education, Business Management and Administration	Head of Quality Department	01/09/2010
Rasa Tamaliūnaitė	Higher education, finance and accounting	Chief Accountant	18/06/2010
Ligita Pudžiuvelytė	Higher education, Economist	Senior Economist	20/05/2004
Rasa Trybienė	Higher education,	Head of Personnel	22/05/2009

	Psychologist		
Rita Juodikienė	Higher education, Business Management and Administration	Head of Purchase Department	23/09/2002
Mindaugas Dūda	Higher education, IT engineer	Head of IT Department	02/08/2008

* None of the labour contracts with the members of the Management Bodies is terminable.

** He has been appointed newly after the reorganization of the Issuer into public company, despite he has been working as a Director of the Issuer since 10/05/1993.

Key administration staff and management board of AB Modest

Name	Surname	Education, speciality	Position held in the Issuer	Start of service in the company	Start of cadence	Finish of cadence
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board		11/12/2009	11/12/2013
Arvydas	Zaranka	Further education, technology of dairy products	Member of the Board		11/12/2009	11/12/2013
Vilija	Milaševičiutė	Higher education, Finance and credit	Member of the Board		11/12/2009	11/12/2013
Kęstutis	Keršys	Higher education, economics	Director	12/07/2010	-	-
Milana	Buivydienė	Higher education, Economics and organisation of agricultural production	Chief accountant	04/07/2006	-	-
Jurgita	Laurinaitienė	Higher education, Technology of food products	Head of production	01/01/2008	-	-

Key administration staff and management board of AB Kelmės Pieninė

Name	Surname	Education, speciality	Position held in the Issuer	Start of service in the company	Start of cadence	Finish of cadence
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board		06/05/2008	06/05/2012
Arvydas	Zaranka	Further education, technology of dairy products	Member of Board		06/05/2008	06/05/2012
Algirdas	Žukauskas	Higher education Zoo- engineer	General Director, member of the board		06/05/2008	06/05/2012
Asta	Mikalauskiene	Higher education Economist, Finance and Banking	Finance director	17/07/2007		
Daiva	Vasiliauskienė	Further education, Bookkeeping	Chief Accountant	01/07/2009		
Edita	Balčiūnienė	Higher education Engineer technologist	Production Director	27/11/2006		

Information about participation in other companies activity:

AB Vilkyškių Pieninė

Name	Surname	Position	Other data - shares, participation in other companies activity	Shares held at AB Vilkyškių Pieninė
Gintaras	Bertašius	General Director, Chairman of the Board	Shareholder of UKB Šilgaliai (1 share), Chairman of the board of AB Modest, Chairman of the board of AB Kelmės Pieninė	6,016,506
Sigitas	Trijonis	Technical Director, member of the Board	has no other shares, does not participate in the activity of other companies	425,538
Rimantas	Jancevičius	Stock Director, member of the Board	has no other shares, does not participate in the activity of other companies	2,194
Vilija	Milaševičiutė	Finance Director, member of the Board	Member of the board of AB Modest, has no other shares	7,718
Arvydas	Zaranka	Production Director	Member of the boards of AB Modest and AB Kelmės Pieninė, has no other shares	1,923
Vaidotas	Juškyš	Chief operation officer (COO)	has no other shares, does not participate in the activity of other companies	1,920
Andrej	Cyba	member of the Board	Member of the board of asset management group of Invalida	-
Linas	Strėlis	member of the Board		1,015,000

AB Modest

Name	Surname	Position	Other data - shares, participation in other companies activity
Gintaras	Bertašius	Chairman of the Board	Shareholder of UKB Šilgaliai (1 share), General Director and Chairman of the Board of AB Vilkyškių Pieninė, Chairman of the Board of AB Kelmės Pieninė
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Kelmės Pieninė
Vilija	Milaševičiutė	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Vilkyškių Pieninė
Kęstutis	Keršys	Director of AB Modest	has no other shares, does not participate in the activity of other companies
Milana	Buivydienė	Chief Accountant	has no other shares, does not participate in the activity of other companies

AB Kelmės Pieninė

Name	Surname	Position	Other data - shares, participation in other companies activity
Gintaras	Bertašius	Chairman of the Board	Shareholder of ŪKB Šilgaliai (1 share), General Director and Chairman of the Board of AB Vilkyškių Pieninė, Chairman of the Board of AB Modest
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Modest
Algirdas	Žukauskas	Director, Member of the Board	Shareholder of ŽŪK Džiaugsmelis (1 share)
Asta	Mikalauskienė	Finance Director	has no other shares, does not participate in the activity of other companies
Edita	Balčiūnienė	Production Director	has no other shares, does not participate in the activity of other companies
Daiva	Vasiliauskienė	Chief Accountant	has no other shares, does not participate in the activity of other companies

28. Employees

Average salary per staff groups:

31 December 2010

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	11	9	2			7,788
Key specialists	65	31	25	9		3,002
Specialists	98	30	49	19		2,074
Workers	581	22	258	250	51	1,478
	755	92	334	278	51	1,758

31 December 2009

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	13	10	3			6,147
Key specialists	60	26	24	10		2,914
Specialists	86	21	46	19		2,005
Workers	576	16	256	252	52	1,376
	735	73	329	281	52	1,568

29. Agreements the parties of which is the Issuer and which would enter into force on the change of Issuer's control

There are no any agreements the parties of which is the Issuer and which would enter into force on the change of Issuer's control.

V DATA ABOUT THE OPENLY PUBLISHED INFORMATION

30. Summary of significant events in 2010

At the Ordinary General Meeting of the Shareholders of AB Vilkyškių pieninė which was held on the 30 April 2010 the following decisions were taken: approved the annual report of the Company of the year 2009, heard auditor's Report regarding the Company's Financial Statements for 2009, approved the Company's Separate and Consolidated Financial Statements for 2009.

Approve the Audited Profit appropriation for the year 2009 as follows under IAS (in thousand Litass; in thousand EUR):

- | | |
|---|-----------------------|
| 1) Non-appropriated profit (loss) at the end of the year 2008 - | 2.177 LTL (631 EUR) |
| 2) Net profit (loss) of the reporting period - | 4.104 LTL (1.189 EUR) |
| 3) Transfers from reserves - | 439 LTL (127 EUR) |
| 4) Total profit (loss) to be appropriated - | 6.720 LTL (1.946 EUR) |
- from it:
- | | |
|--|---------------------|
| - portion of the profit allocated to the legal reserve - | 0 LTL (0 EUR) |
| - portion of the profit allocated for payment of the dividends – | 1.194 LTL (346 EUR) |
- (or 0,10 LTL (0,03 EUR) per ordinary registered share with nominal value of 1 LTL)
- | | |
|--|---------------|
| - portion of the profit allocated to the other reserves - | 0 LTL (0 EUR) |
| - portion of the profit allocated to be paid as annual payouts (tantiemes) | |
- to board members, bonuses to employees and for other purposes – 67 LTL (19 EUR)
- | | |
|---|-----------------------|
| 5) Non-appropriated profit (loss) at the end of the year 2009 | |
| carried forward to next financial year – | 5.459 LTL (1.581 EUR) |

Elected Board members for the four year term: Gintaras Bertasius, Rimantas Jancevicius, Sigitas Trijonis, Linas Strelis, Andrej Cyba, Vilija Milaseviciute. Elected UAB „KPMG Baltics“ as an Audit Company of AB Vilkyškių pieninė. Recalled the independent member of the Audit Committee Alius Jakubelis and elected Birute Baziliene as a new independent member of the Audit Committee. Elected Asta Mikalauskiene and Ligita Pudziuvelyte as members of the Audit Committee.

On 2nd of November 2010 Modest AB, the subsidiary of Vilkyškių pieninė AB increased its share capital by addition cash contributions. The share capital has been increased from 617 118 LTL till 5 617 118 LTL by Vilkyškių pieninė AB.

VI INFORMATION CONCERNING DISCLOSURE OF COMPLIANCE WITH THE GOVERNANCE CODE OF THE COMPANIES

31. Announcement of Vilkyskiu pienine AB concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2010

The public company „Vilkyskiu pienine“, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions		
The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company constantly presents information related with the development strategy and with the optimization of shareholder value via the information system of the Stock Exchange, on its website (www.suris.lt/investuotojams/), and via agency BNS.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the company act in furtherance of the declared strategic objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The company has set up the Management Board which acts for the interests of the company's shareholders, is responsible for the strategic management of the company, supervises the activity of the chief executive officer of the company, organizes meetings of the Management Board and cooperates with the management bodies of the company. Nomination, remuneration and audit committees have been set up in the Company.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The company acts in compliance with the provisions that are set in this clause.
Principle II: The corporate governance framework		
The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer (Director General). The company does not set up a supervisory board as a collegial management body. The Management Board is responsible for the supervision of company's activity and management.

management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.		
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions that are indicated in this recommendation are implemented by the Management Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The company does not follow this recommendation, where a company chooses to form only one collegial body, as Management Board is the one collegial body. The company does not follow the Recommendation 2.3 of the Governance Code – at present the only collegial body of the company is a management body, not a supervisory one. The management body of the company implements the supervisory functions as well.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ¹	Yes	Management Board elects and recalls the chief executive officer, sets his remuneration, other working conditions, approves Staff Regulations, induces him and imposes penalties.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ²	Yes	At present, in accordance with the Articles of Association, the Management Board of the company is composed of 6 members who are appointed for the period of four years. The number of members of the collegial body is sufficient to dominate decision-making. AB "Modest" consists of 3 members. AB "Kelmės pieninė" consists of 3 members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent	Yes	In accordance with the Articles of Association, the members of the Management Board are appointed for the period of four years without limiting the number of their terms of office. The Articles of Association provides the company with the possibility to withdraw the whole Management Board or

¹ Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

² Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.		any of its members. The withdrawal of a member of the Management Board should be based on the legislation.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	No	The company does not follow the Recommendation 2.7 because the chairman of the Management Board is Director General of the Company. The independence of supervision is guaranteed by other five members of the Management Board. AB "Modest" and AB "Kelmės pieninė" follow it these recommendations
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.³		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	While electing the collegial body of the company, the shareholders may take the cognizance of comprehensive information about the candidates early enough before the meeting of the shareholders and during it as well.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The company follows all provisions that are indicated in this recommendation, moreover, the company could additionally mention the document (such as the operating regulation of that body), if any, which determines the specific order of data exchange among the member of that collegial body. The company accumulates and discloses the entire information about the members of collegial body, their professional education, qualification and conflicts of interest, following the order set out in these recommendations, i.e. via publicly announced periodical reports of the company.
3.3. Should a person be nominated for members of a collegial body, such nomination should be	Yes	The company could comprehensively comment the implemented practice (for instance, prior to the

³ Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.		announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year). During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education, professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly. The members of Audit Committee have relevant experience and a recent knowledge in the fields of accounting and audit.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the Management Board constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient ⁴ number of independent ⁵ members.	No	The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the	No	The company has not defined the independence criteria of a member of the Management Board.

⁴ The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

⁵ It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member	Not applicable	The company has not defined the independence criteria of a member of the Management Board.
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of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.⁶.	Not applicable	Members of the Management Board are not remunerated for their service on the Management Board (however, such possibility is set out in the Articles of Association).

⁶ It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the

The general shareholders' meeting should approve the amount of such remuneration.		
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting		
The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁸	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Basing on company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half ⁹ of the meetings of the	Yes	In the year 2010 the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board.

manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

⁷ See Footnote 3.

⁸ See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

⁹ It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the

collegial body throughout the financial year of the company, shareholders of the company should be notified.		
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies ¹⁰ . Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes	In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion. Remuneration committee ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.

collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

¹⁰ In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees¹¹. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	<i>Vilkyskiu pienine</i> AB has 2 committees: Nomination and Remuneration Committee and Audit Committee. The Management Board forms the Nomination and Remuneration Committee. General Meeting of Shareholders approves the members and the regulations of activity of the Audit committee. AB "Modest" and AB "Kelmės pieninė" committees are not formed
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The key objective of the Nomination and Remuneration Committee is to provide the bodies of the company and persons, who nominate or elect members of the management bodies and executive officers of the company, with recommendations and to ensure the transparent policy, principles and order of the settlement of remuneration to members of the management bodies and executive officers. The Committee provides the Management Board with help while supervising (i) election and nomination of the chief executive office and other executive officers, (ii) the settlement of remuneration to the members of the Management Board, to the chief executive office and to other executive officers. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board of the company with help while supervising (i) disclosure quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of an independent auditor, his/her independency and proper performance of

¹¹ The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

		his/her office, (iii) the implementation of internal control.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Each committee of the company is composed of 3 members.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The activity of Nomination and Remuneration Committee is regulated by Regulations Statute Rules approved by the Management Board. The Regulations of Activity of Audit Committee is approved by the General Meeting of Shareholders. Both committees on a regular basis inform the collegial body on their activities and performance.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	If necessary, the employees of the company, who are responsible for the spheres of activity that are discussed by the committee, participate in the meetings of the committees and provide the committees with entire required information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate	Yes	The functions of nomination committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the Nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual	Yes	The functions of Remuneration committee, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.

executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial	Yes	The company substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation

information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore		process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.
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centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity. The Management Board plans to conduct the assessment of its activities in the future.

Principle V: The working procedure of the company's collegial bodies		
The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The chairperson of the Management Board heads up the meetings of the Management Board. The employee of the company organizes the work of the Management Board by order of the chairperson of the Management Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month ¹² .	Yes	The chairperson of the Management Board heads up the meetings of the Management Board. The employee of the company organizes the work of the Management Board by order of the chairperson of the Management Board. Meetings of the Management Board are organized once per month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Each member of the management body may take the cognizance of the issues on the agenda of the meeting before the day of the meeting. Issues under discussion (thesis of reports, draft resolutions, etc.) are presented in advance alongside with the notice about the meeting being convened. Usually the announced agenda of the meeting is not changed unless it is decided otherwise during the meeting, when all members of the Management Board are present, and if the material for the supplemented issue is sufficient in order to make the decision on the issue that has not been announced on the agenda. Issues of agenda of the meetings and draft resolutions are prepared and presented by the chief executive office of the company, by the members of the Management Board, or by special groups, which are formed on the decision of the Management Board and which may include specialists who are not the employees of the company.

¹² The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The capital of the company consists of ordinary registered shares that grant the same personal property and not-property right to all holders of company's shares.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. ¹³ All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Important transactions are approved following the order set in the Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of	Yes	The Articles of Association provide that all persons, who are shareholders of the company on the day of the General Shareholders' Meeting, shall have the right to attend and vote at the General Shareholders' Meeting or may authorise other persons to vote for them as proxies or may transfer their right to vote to other persons with whom an

¹³ The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

the shareholders' meeting should not hinder wide attendance of the shareholders.		agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	No later than 21 day before the General Shareholders' Meeting, shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. If the shareholder requests in writing, chief executive office of the Company no later than 3 days from the receipt of a written request hands in all draft decisions of the meeting to the shareholder against the signature and sends by registered mail. The draft decisions should be referred to whose initiative they are involved. If the initiator of the draft decision submitted the explanations of the draft decision, these are attached to the draft decision. No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ OMX Vilnius in Lithuanian and English languages: 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Until 01/01/2011 the Company has not applied the means of modern technologies, however, it plans to do it in the future.
Principle VII: The avoidance of conflicts of interest and their disclosure The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Management Board avoid situations of a conflict of personal and company's interests.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The members of the Management Board do not mix the company's assets with his/her personal assets.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	Any member of the Management Board may conclude a transaction with the company. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Management Board abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
Principle VIII: Company's remuneration policy Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The company does not follow the recommendations due to public statement of the company's remuneration policy. The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive	No	

directors and members of the management bodies.		
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the	No	

relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	No	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	No	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	No	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	No	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	No	
8.12. The information on preparatory and decision-making processes, during which a	No	The company does not follow the recommendations due to public statement of the company's remuneration policy.

policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		The company follows the approved policy in accordance with which the system of remuneration and premiums as well as other payments, which are related with labour relations, is not publicly announced, and the company attributes such information to information of commercially confidential nature.
8.13. Shares should not vest for at least three years after their award.	No	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire shares or to be remunerated basing on the changes in share price.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on	Not applicable	The company does not follow schemes according to which chief executive officers are remunerated with shares, transactions of share choice and other rights to acquire

the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.		shares or to be remunerated basing on the changes in share price.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the		

documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company and they have access to relevant information.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	Stakeholders, who own the shares of the company, have a right to participate in the meetings of the company, to take interest in activities of the company and its results. If the company works profitably, dividends are paid to the shareholders.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	Stakeholders, who participate in the corporate governance process, have access to relevant information.
Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company;	Yes, except for items 4 and 6	Information on company's financial situation, its activity and the management of the company is disclosed in the reports to press, in the reports on material events of the company, in the annual and interim reports of the company as well as on the website of the company. Information regarding the professional background, labour experience, position held of the members of the management bodies of the company, as well as the

		disclose such information neither in commentaries, nor during interviews, nor otherwise as long as such information is publicly announced via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The company publicly announces all the essential information (in Lithuanian and English languages) on the website of the company, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The company follows this recommendation and places all the essential information on the company's website.
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Management Board of the company proposes a candidate firm of auditors to the shareholders' meeting. The firm of auditors is approved by the shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not rendered to the company any not-audit services and it has not received from the company any remuneration for not-audit services.