VILKYŠKIŲ SŪRIAI 1934

The issuer's employees, administrative manager and the members of the management bodies who are responsible for the composition of interim consolidated financial statements for 6 months of 2010, hereby confirm that the information provided in the reports is prepared according to the applied accounting standards, reflects the reality correctly an fairly shows issuers' and consolidated general companies assets, liabilities, financial position, profit (loss) and also that the interim report shows fair business environment as well as description of the company's performance.

The General Director of Vilkyškių pieninė	Gintaras Bertašius	____________
The Finance Director of Vilkyškių pieninė	Vilija Milaševičiutė	____________

LIETUVOS RESPUBLIKA AKCINĖ BENDROVĖ "VILKYŠKIŲ PIENINĖ" JOINT STOCK COMPANY PAGĖGIŲ SAVIVALDYBĖ

Date of preparation of the report:	27st of August, 2010
Place of preparation:	Vilkyškiai, Pagegių municipality, Lithuania

AB Vilkyškių Pieninė

Interim consolidated financial statements for the 6 months 2010

Content

Company details

AB Vilkyškių Pieninė

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Company code:	277160980
Registered office:	LT-99369 Vilkyškiai, Pagėgiai municipality

Board

Gintaras Bertašius (Chairman)
Sigitas Trijonis
Rimantas Jancevičius
Vilija Milaševičiutė
Linas Strėlis
Andrej Cyba

Management

Gintaras Bertašius, General Director
Vaidotas Juškys, Chief Operation Officer
Sigitas Trijonis, Technical Director
Rimantas Jancevičius, Stock Director
Arvydas Zaranka, Production Director
Arminas Lunia, Sales Director
Vilija Milaševičiutė, Finance Director

Banks

AB SEB Bankas
AB Bankas Snoras
AB Bankas Swedbank

Consolidated statement of financial position

For the period ended 30 June 2010

Thousand Litas	Note	30 06 2010	31 12 2009
Assets			
Property, plant and equipment	8	65,389	66,248
Intangible assets	9	485	608
Goodwill	9	23,875	23,875
Long-term receivables	10	1,282	1,421
Total non-current assets		91,031	92,152
Inventories	11	12,436	18,512
Trade and other receivables	12	19,544	14,820
Cash and cash equivalents	13	255	395
Total current assets		32,235	33,727
Total assets		123,266	125,879
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		8,437	8,624
Retained earnings		8,648	7,048
Total equity attributable to the shareholders of the Company	14	40,424	39,011
Non-controlling interest		108	88
Total equity	14	40,532	39,099
Liabilities			
Interest-bearing loans and lease liabilities	15	27,789	39,266
Government grants	16	7,914	8,203
Deferred tax liabilities	17	2,351	2,301
Total non-current liabilities		38,054	49,770
Interest-bearing loans and lease liabilities	15	21,334	15,990
Trade and other payables, including derivatives	18	23,346	21,020
Total current liabilities		44,680	37,010
Total liabilities		82,734	86,780
Total equity and liabilities		123,266	125,879

The notes, set out on pages 10-49, are an integral part of the consolidated financial statements.

Consolidated income statement

For the period ended 30 June 2010

Thousand Litas	Note	01 01 2010 - 30 06 2010	01 01 2009 - 30 06 2009	01 04 2010 - 30 06 2010	01 04 2009 - 30 06 2009
Revenue	1	107,586	70,703	55,824	36,481
Cost of sales	2	-99,255	-59,965	-48,960	-30,048
Gross profit (loss)		**8,331**	**10,738**	**6,864**	**6,433**
Other operating income, net		299	212	182	148
Distribution expenses	3	-3,726	-3,526	-1,741	-2,215
Administrative expenses	4	-3,210	-2,959	-1,661	-1,528
Operating result		**1,694**	**4,465**	**3,644**	**2,838**
Finance income*		2,013	133	2,003	82
Finance costs		-1,029	-2,020	-509	-910
Net finance costs	5	**984**	**-1,887**	**1,494**	**-828**
Profit (loss) before tax		**2,678**	**2,578**	**5,138**	**2,010**
Income tax expense	6	-83	482	-315	183
Net profit (loss) for the year		**2,595**	**3,060**	**4,823**	**2,194**
Attributable to:					
Shareholders of the Company		2,575	3,033	4,802	2,180
Non-controlling interest		20	27	21	14
Net profit (loss)		**2,595**	**3,060**	**4,823**	**2,194**
Basic earnings per share (Litas)	7	0.22	0.25		
Diluted earnings per share (Litas)	7	-	-	-	-

* Profit on disposal of UAB Kelmes pieno centras, amounting to 1,967 tLitas, recognized in financial income.

The notes, set out on pages 10-49, are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

For the period ended 30 June 2010

Thousand Litas	Note	01 01 2010 - 30 06 2010	01 01 2009 - 30 06 2009
Net profit (loss)		**2,595**	**3,060**
Other comprehensive income for the year			
Increase (decrease) of revaluation reserve		32	91
Effect of income tax		-	-
Other comprehensive income for the year, net of income tax		**32**	**91**
Total comprehensive income		**2,627**	**3,151**
Attributable to:			
Shareholders of the Company		2,607	3,124
Non-controlling interest		20	27
Total comprehensive income		**2,627**	**3,151**

The notes, set out on pages 10-49, are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

Thousand Litas	Note	Share capital	Share premium	Revalu-ation reserve	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Equity, attributable to the shareholders of the Company							
Balance at 1 January 2009		9,353	-	8,420	935	13,442	32,150	42	32,192
Comprehensive income for the period									
Net profit (loss)		-	-	-	-	3,033	3,033	27	3,060
Other comprehensive income									
Allocated from reserves		-	-	-211	-	211	-	-	-
Decrease of revaluation reserve, net of tax		-	-	91	-	-	91	-	91
Total other comprehensive income		-	-	-120	-	211	91	-	91
Total comprehensive income for the period		-	-	-120	-	3,244	3,124	27	3,151
Contributions by and distributions to owners recognised directly in equity									
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Changes in the Group without losing control									
Other changes in the Group		-	-	-	-	-	-	-	-
Total changes in the Group		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance at 30 June 2009		11,943	11,396	7,468	935	3,163	34,905	82	34,987

Consolidated statement of changes in equity (continued)

Thousand Litas	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to shareholders of the Company							
Balance at 1 July 2009		11,943	11,396	7,468	935	3,163	34,905	82	34,987
Comprehensive income for the period									
Net profit (loss)		-	-	-	-	3,657	3,657	6	3,663
Other comprehensive income									
Allocated from reserves		-	-	-228	-	228	0	-	-
Increase of revaluation reserve, net of tax				449			449		449
Total other comprehensive income		-	-	221		228	449	-	449
Total comprehensive income for the period		-	-	221	-	3,885	4,106	6	4,112
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	14	11,943	11,396	7,689	935	7,048	39,011	88	39,099

Consolidated statement of changes in equity (continued)

		Equity attributable to shareholders of the Company							
Thousand Litas	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010		11,943	11,396	7,689	935	7,048	39,011	88	39,099
Comprehensive income for the period									
Net profit (loss)		-	-	-	-	2,575	2,575	20	2,595
Other comprehensive income									
Allocated from reserves		-	-	-219	-	219	-	-	-
Increase of revaluation reserve, net of tax		-	-	32	-	-	32	-	32
Total other comprehensive income		-	-	-187	-	219	32	-	32
Total comprehensive income for the period		-	-	-187	-	2,794	2,607	20	2,627
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 30 June 2010	14	11,943	11,396	7,502	935	8,648	40,424	108	40,532

The notes, set out on pages 10-49, are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

For the period ended 30 June 2010

Thousand Litas	Note	01 01 2010 - 30 06 2010	01 01 2009 - 30 06 2009
Cash flows from operating activities			
Net profit (loss)		2,595	3,060
Adjustments:			
Depreciation of property, plant and equipment	8	3,160	3,126
Amortisation of intangible assets	9	128	82
Amortisation of grants	16	-289	-212
(Profit) loss on disposal of property, plant and equipment		-49	-
Profit (loss) on disposal of UAB Kelmes pieno centras		-1,967	-
Income tax expense		83	-
Interest expenses, net		907	2,019
		4,568	**8,075**
Change in inventories		5,991	5,089
Change in long-term receivables		139	-
Change in trade and other receivables		-4,641	2,495
Change in trade and other payables		3,764	-4,245
		5,253	**3,339**
Paid interest		-928	-2,019
Net cash flows from (used in) operating activities		**8,893**	**9,395**
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	-2,502	-643
Acquisition of intangible assets	9	-5	-426
Proceeds from sale of property, plant and equipment		247	-
Proceeds from sale of investments		-	-
Acquisition of investment, net of cash acquired		-	-
Net cash flow used in investing activities		**-2,260**	**-1,069**

Consolidated statement of cash flows (continued)

For the period ended 30 June 2010

Thousand Litas	Note	01 01 2010 - 30 06 2010	01 01 2009 - 30 06 2009
Cash flows from financing activities			
Loans received		1,308	614
Repayment of borrowings*		-6,954	-8,033
Leasing payments		-488	-661
Dividends paid		-639	-
Capital grants received	16	-	212
Net cash from (used in) financing activities		**-6,773**	**-7,868**
Increase (decrease) in cash and cash equivalents		**-140**	**458**
Cash and cash equivalents at 1 January		395	195
Cash and cash equivalents at 31 December	13	**255**	**653**

*Repayment of the borrowings includes change of overdraft facility of 1,101 tLTL during 6 months 2010 (change of overdraft facility amounts to 2,152 t LTL during 6 months 2009).

The notes, set out on pages 10-49, are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Background information

The Group consists of the following companies:

- Vilkyškių Pieninė, the parent company (hereinafter – the Company or the Group)
- AB Modest, the subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, the subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė). In June 2010 AB Kelmės Pieninė sold shares of UAB Kelmės Pieno Centras.

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

AB Vilkyškių Pieninė is a Lithuanian company listed on the Vilnius Stock Exchange.

As at 30 June 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	1,745,756	1	1,745,756
Linas Strėlis	1,015,000	1	1,015,000
Skandinaviska Enskilda Banken AB	1,000,036	1	1,000,036
Finasta Group of Companies	784,887	1	784,887
SEB clients	636,355	1	636,355
Other	744,460	1	744,460
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 Company also has a milk purchase and processing centre in Eržvilkas, Jurbarkas region.

The Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 97,2% voting rights of the subsidiary. AB Modest specialises in production of cheese, cottage cheese and other cheese products.

In 2008 the Company acquired one more 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 specialises in production of fresh dairy products.

As at 30 June 2010 the Group had 753 employees (as at 31 December 2009: 735).

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

The consolidated 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 Company. Accounting records are maintained in accordance with Lithuanian laws and regulations. The consolidated financial statements are prepared on the historical cost basis, except for:

- derivative financial instruments which are measured at fair value.
- buildings which are measured at fair value less accumulated depreciation.

The preparation of consolidated 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies of the Company, set out below, have been applied consistently to all periods presented in these consolidated financial statements, except for those which changed due to the changes in previously valid IFRS and the new IFRSs effective as of 1 January 2009.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Significant accounting policies (continued)

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 recognised 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.

Statement of financial position

Property, plant and equipment

Items of plant and equipment, including assets under finance lease terms, are stated at cost less accumulated depreciation and impairment losses. The cost includes expenses incurred in relation to acquisition of an asset. 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 for as separate items of property, plant and equipment.

The Group 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 recognised 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.

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 recognised 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 in the revaluation reserve of property, plant and equipment under equity. However, if such an increase in value reverses a revaluation decrease of the same asset previously recognised in profit or loss, then it is recognised in profit or loss. Depreciation is

Significant accounting policies (continued)

Statement of financial position (continued)

Property, plant and equipment (continued)

calculated on the amount which is equal to the acquisition cost/revalued amount net of residual value of the asset.

Depreciation is recognised 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 Company assumes 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 capitalised 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 company 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 that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses.

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.

Significant accounting policies (continued)

Statement of financial position (continued)

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 recognised on the trade date, except loans, receivables and deposits which are recognised at the date they are originated. When financial assets are recognised 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 recognising 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 the embedded derivative has been serarately 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 profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in the income statement when the investments are derecognised 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 amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired.

Significant accounting policies (continued)

Statement of financial position (continued)

Financial assets and liabilities (continued)

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 recognised as a separate component of equity until the investment is derecognised 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 organised financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position 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 recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised 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 recognised as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment starting from 1 January 2009. During the year 2009 the Company did not incur any borrowing costs, which were raleted to property, plant and equipment. Other borrowing costs are recognised in the income statement.

Trade and other payables

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. The carrying value of trade and other payables approximate their fair values due to their short maturity. A trade and other payable is removed from the statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

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.

Significant accounting policies (continued)

Statement of financial position (continued)

Derivative financial instruments (continued)

Derivatives are recognised initially at fair value: attributable transaction costs are recognised 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 recognised 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 recognised 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 derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company 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 recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised 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.

Significant accounting policies (continued)

Statement of financial position (continued)

Impairment

Financial assets

Financial assets not carried at fair value through profit or loss are reviewed for impairment at each statement of financial position date. A financial asset is impaired if objective evidence indicates that a loss event has occured 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 amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised 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 recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

In relation to trade and other receivables impairment loss is recognised when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company 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 derecognised when they are assessed as uncollectible.

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised 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 amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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 amortisation, if no impairment loss has been recognised.

Significant accounting policies (continued)

Statement of financial position (continued)

Impairment (continued)

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 posible impairment. If any such indication exists, then the assets recoverable amount is estimated.

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 recognised in the income statement. Impairment losses recognised 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 recognised in prior years is recorded when there is an indication that the impairment losses recognised 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 recognised in the statement of financial position when the company 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 recognised 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.

Significant accounting policies (continued)

Statement of financial position (continued)

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 fulfilment 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 Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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.

Capitalised 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 Company will obtain ownership by the end of the lease term.

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

Dividends

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

Government grants

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

Grants that compensate the Company for the cost of an asset are amortised over the same period as the asset for which the grant has been received. Amortisation 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.

Income statement

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 recognised 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

Significant accounting policies (continued)

Income statement (continued)

Revenue (continued)

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, gain or loss from intercompany transactions as well as other income and costs not related to the primary activity.

Financial income and expenses

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

Interest income is recognised in the income statement as it accrues. The interest expense component of finance lease payments is recognised 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 recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet 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 in 2009 is 20%, in 2008 - 15%. 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

Significant accounting policies (continued)

Significant accounting policies (continued)

Income statement (continued)

Income tax (continued)

consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax is provided using the balance sheet liability method, providing 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 realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Earnings per share

The Group 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 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 Group 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 Group did not issue any potential ordinary shares.

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 Group's General director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Significant accounting policies (continued)

Approved, but not effective standarts yet

Several new and revised International Financial Reporting Standards and interpretations have been issued, which shall be subject to application in financial reporting starting from 1 January 2010 and subsequent years. The Group has decided not to apply earlier the new standards and interpretations. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Group's management, are stated below.

- *Amended IFRS 3 "Business Combinations"*

  Amendment to IFRS 3 is effective 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 management has not yet estimated the effect of the amended IFRS 3 on the financial statements.

- *Amended IAS 27 "Consolidated and separate Financial Statements"*

  Amendment to IAS 27 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. The management has not yet estimated the effect of the amended IAS 27 on the financial statements.

- *Amended IAS 32 "Financial Instruments: Presentation – Classification of Rights issues"*

  Amendment to IAS 32 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 Group's financial statements as the Group has not issued such instruments.

- *Amended IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"*

  The amended Standard 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. Management has not yet evaluated an impact of the amendments to IAS 39 on the Company's financial statements.

- *IFRIC 12 "Service concession arrangements"*

  The Interpretation provides 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. 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.

Significant accounting policies (continued)

Approved, but not effective standarts yet (continued)

- *IFRIC 15 "Arrangements for the construction of Real Estate"*

  IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity.

  FRIC 15 is effective for annual periods beginning on or after 1 January 2010. IFRIC 15 is not relevant to the Company's financial statements as the Company does not provide real estate construction services or develop real estate for sale.

- *IFRIC 16 "Hedges of a Net Investment in Foreign Operation"*

  The Interpretation explains the type of exposure that may be hedged. It explains where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Company's financial statements as the Company does not have any investments in a foreign operation.

- *IFRIC 17 "Distributions of Non-cash Assets to Owners"*

  The Interpretation 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 recognised when the dividend is appropriately authorised 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 remeasured at each reporting date, with any changes in the carrying amount recognised 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 recognised 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.

- *IFRIC 18 "Transfers of Assets from Customers"*

  IFRIC 18 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 Company's financial statements as the Company does not receive in scope asset contributions from its customers.

Contingencies

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

Significant accounting policies (continued)

Contingencies (continued)

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

Subsequent events

Subsequent events that provide additional information about the Company'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.

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 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 property, plant and equipment

The carrying amounts of the Group's 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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value.

Impairment losses on receivables

The Group 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 Group 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 Group 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

Significant accounting policies (continued)

Critical accounting estimates and assumptions (continued)

Impairment losses on receivables (continued)

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 utilisation and physical condition of the assets concerned.

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

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

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 analyse 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.

The note "Financial instruments and risk management" 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 also included throughout these annual financial statements.

1 Segment reporting

The Group has three reportable segments: AB Vilkyškių Pienine (parent company), AB Kelmės Pieninė (a subsidiary) and AB Modest (a subsidiary). The activity of each company (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.

Segment information for the 6 months 2010:

Thousand Litas	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	106,180	7,877	31,588	-38,059	107,586
Interest income	31	2,068	-	-86	2,013
Interest expenses	-771	-278	-66	86	-1,029
Depreciation and amortisation	2,237	745	306	-	3,288
Result before taxation	950	2,254	-526	-	2,678
Income tax expense	-83	-	-	-	-83
Net profit (loss)	867	2,254	-526	-	2,595
Other material non-cash items:					
Profit on disposal of UAB Kelmės pieno centras	-	1,967	-	-	1,967
Segment assets	103,936	30,730	9,662	-21,062	123,266
Acquisition of property, plant and equipment	2,005	226	297	-	2,528
Segment liabilities	65,553	18,958	12,933	-14,710	82,734

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

Segment information for the 6 months 2010 per geographical zones:

Thousand Litas	**Revenue**	**Assets**
Lithuania	43,090	123,266
European Union	39,292	-
Russia	23,192	-
Other countries	2,012	-
	107,586	123,266

1 Segment reporting (continued)

Segment information for the 6 months 2009:

Thousand Litas	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	60,530	26,300	7,415	-23,542	70,703
Interest income	35	98	-	-	133
Interest expenses	-1,300	-530	-190	-	-2,020
Depreciation and amortisation	2,058	829	157	-	3,044
Result before taxation	-418	2,996	-247	247	2,578
Income tax expense	482	-	-	-	482
Net profit (loss)	64	2,996	-247	247	3,060
Other material non-cash items	-	-	-	-	-
Segment assets	101,071	32,867	11,331	-17,887	127,382
Acquisition of property, plant and equipment	767	79	654	-	1,500
Segment liabilities	66,929	20,576	11,106	-6,216	92,395

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

Segment information for the 6 months 2009 per geographical zones:

Thousand Litas	**Revenue**	**Assets**
Lithuania	35,754	127,382
European Union	26,955	-
Russia	7,227	-
Other countries	767	-
	70,703	127,382

	Thousand Litas	**01 01 2010 – 30 06 2010**	**01 01 2009 – 30 06 2009**
2	**Cost of sales**		
	Raw materials	-61,577	-31,245
	Other costs	-37,678	-31,847
	Reversal (write down) due to net realizable value	-	3,127
		-99,255	-59,965
3	**Distribution expenses**		
	Marketing and advertising	-1,341	-750
	Logistics	-927	-1,431
	Staff costs	-660	-394
	Transportation	-468	-477
	Other sales costs	-330	-474
		-3,726	-3,526
4	**Administrative expenses**		
	Staff costs	-1,423	-1,437
	Depreciation and amortisation	-383	-340
	Taxes except for income tax	-212	-140
	Consultations	-137	-66
	Bank charges	-75	-87
	Repair	-53	-56
	Insurance	-43	-44
	Other	-884	-789
		-3,210	-2,959
5	**Net financing costs**		
	Finance income		
	Profit on disposal of UAB Kelmės pieno centras	1,967	-
	Penalties and fines	13	11
	Interest	11	97
	Other	22	25
	Total finance income	2,013	133
	Finance costs		
	Interest	-921	-1,839
	Loss from foreign exchange	-88	-64
	Other	-20	-117
	Total finance costs	-1,029	-2,020
		984	-1,887

6 Income tax expense

Thousand Litas	**01 01 2010 – 30 06 2010**	**01 01 2009 – 30 06 2009**
Recognised in the income statement		
Current income tax expense		
Current period	-	-
Deferred tax		
Change in deferred tax	-83	482
	-83	482

Deferred tax liability, recognised in equity, amounts to 1,324 tLTL as at 30 June 2010 (1,356 Tltl as at 31 December 2009).

7 Earnings per share

	01 01 2010 – 30 06 2010	**01 01 2009 – 30 06 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 company, in thousand Litas	2,575	3,033
Basic earnings per share, in Litas	0.22	0.25

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

8 Property, plant and equipment

Thousand Litas	**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	206	1,171	149	997	2,523
Disposals	-199	-886	-114	0	-1,199
Reclassification	6	1,492	23	-1,541	-20
Balance as at 30 June 2010	28,384	52,226	14,256	2,663	97,529
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	747	2,197	216	-	3,160
Disposals	-197	-740	-60	-	-997
Reclassification	-	-	-	-	-
Balance as at 30 June 2010	5,454	19,086	7,600	-	32,140
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 1 January 2010	23,467	32,820	6,754	3,207	66,248
At 30 June 2010	22,930	33,140	6,656	2,663	65,389

Pledges

To secure bank loans, the Group has pledged its non-current assets with a book value of 51,295 tLTL as at 30 June 2010 (note 15).

8 Property, plant and equipment (continued)

Leased property, plant and equipment

The Group has acquired several transport vehicles and plant and equipment by way of finance lease. The carrying amount of the leased assets amounted to 3,721 tLTL as at 30 June 2010.

Depreciation

Depreciation is recorded in the following items:

Thousand Litas	**01 01 2010 – 30 06 2010**	**01 01 2009 – 30 06 2009**
Cost of sales	2,479	2,401
Distribution and administrative expenses	468	369
Other operating income, net	213	273
	3,160	3,043

Valuation of buildings

The Group accounts for buildings at revalued value. Carrying amount of buildings stated as revalued amount less depreciation amounts to 7,226 tLTL as at 30 June 2010. Last revaluation was performed in 2006.

Buildings of AB Kelmės Pieninė, the carrying amount of which as at 30 June 2010 amounts to 6,589 tLTL (31 December 2009 amounts to 6,717 tLTL), are evaluated at fair value at acquisition date (30 April 2008).

The revaluation reserve decreased by an amount of deferred tax and its net value as at 30 June 2010 amounts to 7,502 tLTL (as at 31 December 2009 amounts to 7,689 tLTL).

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9 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		4	4
Disposals		-36	-36
Balance at 30 June 2010	23,875	1,505	25,380
Amortisation and impairment			
Balance at 1 January 2009	-	680	680
Amortisation for the year	-	260	260
Disposals	-	-11	-11
Balance at 31 December 2009	-	929	929
Balance at 1 January 2010	-	929	929
Amortisation for the year			
Disposals	-	929	929
	-	128	128
Balance at 30 June 2010	-	-37	-37
Carrying amounts	-	1,020	1,020
1 January 2009	23,875	418	24,293
31 December 2009	23,875	608	24,483
1 January 2010	23,875	608	24,483
30 June 2010	23,875	485	24,360

Amortisation for the period is recognised 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 06 30	2009 12 31
AB Kelmės Pieninė	22,842	22,842
AB Modest	1,033	1,033
	23,875	23,875

9 Intangible assets (continued)

Impairment of cash generating units with attributed goodwill (continued)

The mentioned 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. Calculation of the value in use is based on the following assumptions:

- Future cash flows for 2010 and 2009 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 Company‘s management is planning to strengthen the Group‘s marketing and to increase export sales;
- The Company‘s management expects that prices of raw milk will not differ significantly from the prices in 2009;
- 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.

10 Long-term receivables

Thousand Litas	Note	**30 06 2010**	**31 12 2009**
Prepayments to related parties	21	842	842
Long-term receivables from customers		-	217
Loans granted to related parties		351	351
Advance payment for milk		89	-
Other long-term receivables		-	11
		1,282	1,421

A prepayment (842 thousand Litas) is made to a related company ŽŪK Šilgaliai. An agreement was drawn up in 2007, based on which the prepayment shall be fully covered until 31 December 2012. Starting from 2009, the prepayment will be covered by milk supplied by ŪKB Šilgaliai. The outstanding balance of the prepayment bears an annual interest of 5%.

An interest-bearing loan of 351 thousand Litas, issued to a related party ŽŪK Šilgaliai, matures on 31 December 2012.

Advance payments (88 thousand Litas) are made to farmers for milk. The outstanding balance of advance payments bears an annual interest.

Credit and foreign currency risks, encountered by the Company, and impairment losses related to trade and other receivable amounts are disclosed in note 22.

11 Inventories

Thousand Litas	**30 06 2010**	**31 12 2009**
Finished production	8,624	14,683
Write down to net realizable value	-	-
	8,624	14,683
Raw materials	303	194
Other auxiliary materials	3,169	3,624
Goods for re-sale	340	11
	12,436	18,512

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

As at 30 June 2010 and 31 December 2009 there was no write down of inventories.

As at 30 June 2010 the inventories, the carrying amount of which amounts up to 16,5 million LTL have been pledged to financial institutions (note 15).

12 Trade and other receivables

Thousand Litas	Note	**30 06 2010**	**31 12 2009**
Trade receivables		15,270	12,373
Trade receivables due from related parties	21	173	137
Receivable capital grants		-	-
Prepayments	a)	1,711	398
Receivable export compensations		-	100
Receivable taxes	b)	1,550	626
Other receivable amounts	c)	840	1,186
		19,544	14,820

Credit and foreign currency risks, encountered by the Company, and impairment losses related to trade and other receivable amounts are disclosed in note 22.

a) Prepayments mainly include advance payments to farmers for milk.

b) Receivable taxes mainly include VAT receivable.

c) Other receivable amounts mainly include receivable amounts from employees.

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

13 Cash and cash equivalents

	30 06 2010	31 12 2009
Thousand Litas		
Cash at bank	189	211
Cash in hand	66	184
	255	395

Account balances as at 30 June 2010 have been pledged to secure bank loans (note 15). T

The interest rate risk encountered by the Company, related to cash and cash equivalents, is disclosed in note 22.

14 Capital and reserves

Authorised capital of the parent company as at 30 June 2010 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

According to the Companies Law 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.

The reserve is decreased in proportion to depreciation and disposal of revaluated assets. The decrease is recognised directly in equity.

When depreciating the revaluated 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 authorised capital.

15 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 30 06 2010	Balance at 31 12 2009
AB SEB bankas	a)	EUR	18,283	9,181	10,270
AB bankas Snoras	b)	EUR	2,072	211	418
AB bankas Snoras	b)	EUR	8,386	6,965	8,001
AB bankas Snoras	b)	EUR	1,554	518	1,208
AB bankas Snoras	b)	LTL	350	-	350
AB SEB bankas	c)	EUR	3,459	3,243	3,459
AB Snoro bankas	d)	EUR	5,000	1,308	-
Swedbank AB	e)	EUR	6,300	5,244	5,681
Swedbank AB	f)	EUR	11,999	11,600	11,800
Swedbank AB	f)	EUR	2,000	967	845
Swedbank AB	g)	EUR	8,300	750	1,417
AB SEB bankas ES	h)	EUR	7,078	1,748	2,389
AB SEB bankas credit facility	i)	EUR	4,924	3,499	4,723
AB bankas Snoras	j)	EUR	5,429	1,838	1,838
AB bankas Snoras	k)	EUR	1,300	611	929
Financial leasing	l)			1,440	1,928
Total liabilities				49,123	55,256
Less: current part				-21,334	-15,990
Total loans and borrowings payable after one year				27,789	39,266

a) The loan (3,475 tEUR) 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 instalments, except for January and February. The loan matures on 26 December 2011. Repayment of the second part (1,820 thousand EUR) started on 30-06-2008, paying in equal quarterly instalments. The loan shall be repaid by 27-04-2015. The loan is secured by pledging property, plant and equipment (note 8), inventories (note 12), bank account balances and trademarks.

b) The Company 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 non-current assets, the land rent rights and cash at bank.

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 starts as of 31-03-2010, in equal quarterly instalments and ends on 31-03-2015. The loan is secured by pledging buildings and equipment by secondary pledge and equipment by primary pledge.

d) The loan-credit limit (1,448 thousand EUR) has been granted to AB Vilkyškių Pieninė for realisation of the Project of the EU structural funds for 2007-2013. The repayment in monthly installments ends on 3-02-2017. The loan is secured by pledging equipment.

e) The loan was granted to AB Vilkyškių Pieninė (1,825 thousand EUR) on 28-04-2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan starts as of 30-09-2008 in equal annual instalments until 28-04-2013. 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.

15 Interest bearing loans and borrowings (continued)

f) Loans (3,475 tEUR and 2,000 tLTL) have been issued to AB Kelmės Pieninė for working capital needs. The repayment in quarterly instalments is expected to start in October 2009 and end in December. The loan is secured by pledging the buildings, equipment, current and future cash balances and inventories.

g) The loan (2,404 t EUR) has been granted to AB Kelmės Pieninė for realisation of the Project of the EU structural funds for 2004-2006. The loan shall be repaid in equal quarterly instalments by 30 September 2010. The loan is secured by the equipment financed from the EU structural funds and the buildings under secondary pledge. The effective interest rate is 6 months EURIBOR + margin.

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. It is expected to receive a grant from the Structural Funds of EU, amounting to 2,189 tLTL, which will be used for partial repayment of the loan. To the secure the loan the Company pledged its movable and not movable assets. The loan is repayable in equal parts and matures on 20 December 2012.

i) According to the agreement, dated 14 June 2006, AB Vilkyškių Pieninė was granted a credit facility of 1,426 tEUR for working capital needs. The liability matures on July 2010. To secure the liability the Company has pledged its real estate and equipment by secondary pledge.

j) According to the loan agreement, dated 28 February 2007, AB Modest received a loan of 2,066 tLTL for realisation of the EU Project. Based on the same agreement with AB Bankas SNORAS a loan of 600 tLTL was received for working capital needs. The repayment of the loan in equal monthly instalments starts on 28 March 2009 and ends by 28 November 2013. The loan is secured by pledging the buildings, equipment, inventories and cash balances.

k) The loan was issued to AB Modest for working capital needs. The repayment in equal monthly instalments starts as of 29 June 2009 and ends by 20 December 2010. The loan is secured by secondary pledge of the buildings, equipment, inventories and cash balances.

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

Loan repayment schedules, except for finance lease liabilities:

Thousand Litas	**30 06 2010**	**31 12 2009**
Within one year	20,627	15,190
From 1 to 5 years	26,715	33,592
After 5 years	341	4,546
	47,683	53,328

15 Interest bearing loans and borrowings (continued)

Finance lease liabilities

The finance lease payments are as follows:

Within 1 year	733	901
From 1 to 5 years	781	1,092
	1,514	1,993
Future interest on finance lease	-74	-65
Present value of finance lease liabilities	1,440	1,928

Finance lease agreements do not contain any contingent lease payments.

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

16 Government grants

Thousand Litas	**30 06 2010**	**31 12 2009**
Carrying amount at the beginning of the period	8,203	8,894
Grants received	-	32
Amortisation recognised in the income statement	-289	-548
Written down grants due to disposal of assets	-	-175
Carrying amount at the end of the period	7,914	8,203

The Company has received grants from the National Settlement Agency as to the Lithuanian farming development program 2004-2006. The grants were received for acquisition of property, plant and equipment. The mentioned grants are amortised in proportion to depreciation of the assets acquired.

17 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate in 2009 (2008 : 20%), are attributed to the following items:

	Assets		**Liabilities**		**Net value**	
Thousand Litas	30 06 2010	31 12 2009	30 06 2010	31 12 2009	30 06 2010	31 12 2009
Property, plant and equipment	-	-	3,090	3,027	3,090	3,027
Vacation reserve	-	-	-	-	-	
Inventories	-	-	-	-	-	-
Capital grants	-229	-193	-	-	-229	-193
Other accruals	-7	-7	-	-	-7	-7
Tax losses to be carried forward	-503	-526	-	-	-503	-526
Deferred tax (asset) / liabilities	-739	-726	3,090	3,027	2,351	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 disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. 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.

Decrease in deferred tax liability by 32 tLTL, related to revaluation of non-current assets, was recognised by increasing the revaluation reserve in equity. The increase in the deferred tax liability recognised in the income statement amounted to 83 tLTL.

Thousand Litas	**30 06 2010**	**31 12 2009**
Trade payables	17,576	16,101
Employment related liabilities	3,311	2,942
Prepayments received	1,035	708
Payable dividends	681	125
Other payable amounts and accrued costs	639	1,040
Fair value of interest rate swap transaction		104
	23,346	21,020

Foreign currency and liquidity risks of the Company, related to trade and other payable amounts are disclosed in note 22.

19 Contingencies

As at 30 June 2010 the Group had the following material contractual liabilities:

	30 06 2010	31 12 2009
Acquisition of property, plant and equipment	1,811	2,406
Purchase of raw materials	12,656	9,300
	14,467	11,706

The following assets were pledged as at 30 June 2010 to secure the bank loans (note 15):

- Current and future cash inflows in the accounts of different banks;
- Property, plant and equipment with the carrying amount of 51,295 tLTL;
- Inventories with the market value of 16,5 million LTL.

20 Staff costs

	01 01 2010 – 30 06 2010	01 01 2009 – 30 06 2009
Staff costs are included in the following items:		
Cost of inventories	6,753	5,956
Administrative expenses	2,082	2,272
	8,835	8,228

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 Company, calculated from the nominal salary of employees.

Staff costs for January-June 2010 include remuneration to the Company’s management of 661 tLTL including social security contributions of 30.98% (600 tLTL for January-June 2010).

21 Transactions with related parties

Thousand Litas	Note	30 06 2010	31 12 2009
Receivable amounts			
Prepayments			
ŽŪK Šilgaliai	10	842	842
		842	842
Trade receivable amounts			
ŽŪK Šilgaliai	12	173	137
		173	137
Loans raised			
ŽŪK Šilgaliai	10	351	351
		351	351
		1,366	**1,330**

Sale of raw materials, goods and services	**2010 01 01 – 2010 06 30**	**2009 01 01 – 2009 06 30**
ŽŪK Šilgaliai	31	31
	31	**31**
Purchase of raw materials, goods and services		
ŽŪK Šilgaliai	264	257
	264	**257**

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

Salaries to management are included in the item of administrative costs under „Staff costs“ (note 20):

Prepayments to management are accounted for in receivable amounts:

Thousand Litas	30 06 2010	31 12 2009
Other amounts receivable from management	726	611

22 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	
		30 06 2010	**31 12 2009**
Trade receivables	12	15,443	12,727
Other receivables	12	2,390	1,923
Loans raised	10	351	351
Cash and cash equivalents	13	255	395
		18,439	15,396

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

	Carrying amount	
	30 06 2010	**31 12 2009**
Lithuania	8,365	8,316
Latvia	1,663	2,118
Estonia	52	55
Russia	3,387	1,247
Other	1,976	991
	15,443	12,727

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.

22 Financial instruments and risk management (continued)

Impairment losses (continued)

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

Thousand Litas	Gross 30 June 2010	Impairment 30 June 2010	Gross 31 December 2009	Impairment 31 December 2009
Related parties:				
Not past due	1,210	-	1,207	-
Past due 0-30 days	-	-	2	-
Past due 31-60 days	2	-	3	-
More than 60 days	154	-	118	-
	1,366	-	1,330	-
Other parties:				
Not past due	14,780	-	12,938	-
Past due 0-30 days	3,815	-	961	-
Past due 31-60 days	88	-	185	-
More than 60 days	777	-	827	-
	19,460	-	14,911	-
	20,826	-	16,241	-

There was no impairment recognised in relation to trade and other receivables as at 30 June 2010 and 31 December 2009

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Company'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 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.

22 Financial instruments and risk management (continued)

Liquidity risk (continued)

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

30 June 2010

Thousand Litas	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	17,671	-19,096	-1,984	-1,573	-10,545	-4,994	-
AB Snoras loans	11,452	-11,452	-2,862	-6,255	-1,919	-416	-
Swedbank AB loans	18,560	-19,193	-1,959	-2,959	-5,827	-8,448	-
Finance lease liabilities	1,440	-1,514	-390	-343	-493	-288	-
Trade and other payable amounts	23,346	-23,346	-23,346	-	-	-	-
	72,469	-74,601	-30,541	-11,130	-18,784	-14,146	-

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 Litas	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	-	-	-	-
	76,276	-80,097	-29,482	-11,649	-19,317	-16,598	-3,051

The folowing interst rates were applied to discount estimated cash flows:

	30 06 2010	**31 12 2009**
Loans and finance lease liabilities	3%	3%

22 Financial instruments and risk management (continued)

Currency risk

The Group's exposure to the foreign currency risk was as follows (expressed in Litas' 000), using the exchange rates, valid as at 30 June 2010:

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

	30 06 2010			**31 12 2009**		
	LTL	EUR	LVL	LTL	EUR	LVL
Long-term receivables	1,282	-	-	1,421	-	-
Trade and other receivables	19,198	346	-	10,805	2,929	1,086
Cash and cash equivalents	214	41	-	254	141	-
Loans and leasing liabilities	-12,292	-36,831	-	-4,103	-51,153	-
Trade and other payables	-20,498	-2,848	-	-19,318	-1,702	-
Net exposure	-12,096	-39,292	-	-10,941	-49,785	1,086

	Average	
	01 01 2010 – 30 06 2010	**01 01 2009 – 30 06 2009**
EUR	3.4528	3.4528
LVL	4.8744	4.8191

The following exchange rates were applied as at 30 June 2010 and 31 December 2009:

	30 06 2010	**31 12 2009**
EUR	3.4528	3.4528
LVL	4.8676	4.8679

22 Financial instruments and risk management (continued)

Sensitivity analysis

A 10 percent strengthening of the Litas 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 Company 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.

30 June 2010 Effect in Litas'000	Equity	Profit (loss)
EUR	3,929	3,929
LVL	-	-

31 December 2009 Effect in Litas'000	Equity	Profit (loss)
EUR	4,979	4,979
LVL	(109)	(109)

A 10 percent weakening of the Litas against the above currencies at 30 June 2010 and 31 December 2009 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 Group 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 during the 6 months 2010 are denominated in LTL and EUR, therefore the Group did not expose to significant foreign currency exchange risk.

Interest rate risk

The Group‘s borrowings bear variable interest rates related to LIBOR. The average effective interest rates in the 6 months 2010 were close to the actual interest rates.

If the effective interest rate applied on the Group‘s borrowings with variable interest rates increases (or decreases) by 1 percent, the interest costs for the year ended 31 December 2009 and the profit for the year would decrease (or increase) by approximately 517 tLTL (2009 – 553 tLTL).

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 104 tLTL.

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.

22 Financial instruments and risk management (continued)

Interest rate risk (continued)

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

Interest rate risk

Litas'000	Carrying amount	
	30 06 2010	**31 12 2009**
Fixed rate financial instruments		
AB Bankas Snoras loan	-	350
	-	350
Variable rate financial instruments		
SEB loans	17,671	20,841
Swedbank loans	18,560	19,743
AB Bankas Snoras loans	11,452	12,394
Finance lease liabilities	1,440	1,928
	49,123	54,906
	49,123	**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 Litas	Profit (loss)		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
30 June 2010				
Variable rate instruments	-517	517	-517	517
31 December 2009				
Variable rate instruments	-553	553	-553	553

22 Financial instruments and risk management (continued)

Fair value of financial instruments

The Company'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 30 June 2010 comprise derivatives. The Company does not have any other financial instruments stated at fair value as of 30 June 2010 and 31 December 2009.

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

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

Thousand Litas	**30 06 2010**		**31 12 2009**	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term receivables	1,282	1,282	1,421	1,421
Trade and other receivables	19,544	19,544	14,820	14,820
Cash and cash equivalents	255	255	395	395
Loans and finance lease liabilities	-49,123	-49,123	-55,256	-55,256
Trade and other payables	-23,346	-23,346	-21,020	-21,020
	-51,388	-51,388	-59,640	-59,640

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 30 June 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 Company seeks to minimise 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.

22 Financial instruments and risk management (continued)

Capital management (continued)

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 Company 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 Company 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 30 June 2010 and 31 December 2009.

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

23 Subsequent events

In August 2010 AB SEB bankas prolonged the repayment of credit facility of AB Vilkyškių pieninė, amounting 1,426 tEUR (approx. 4,924 tLitas), until 13 July 2011.

There were no other significant events after the reporting date.

Vilkyškių Pieninė AB
Consolidated interim report
for the 6 months of the year 2010

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

The report has been prepared for 6 months of 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/for investors.
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

Vilkyškių Pieninė AB

Name of the Issue	Public Limited Company Vilkyskiu pienine (hereinafter referred as to the Company or Issuer)
Authorized capital	11,943,000 LTL
Registered office	Vilkyškiai, Pagegiai 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 10th of May 1993
Date and place of re-registration	The 30th of December 2005, Taurage Subsidiary of State Enterprise Centre of Registers
Registration No.	060018
Code in the Register of Enterprises	277160980
Internet address	http://www.cheese.lt; http://www.suriai.lt

3. Key data about the subsidiaries

Modest AB

Name of the subsidiary	Public limited company Modest (hereinafter – Modest AB)
Authorized capital	617,118 LTL
Registered office	Gaurės str. 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 Centre of Registers
Registration No.	017745
Code in the Register of Enterprises	121313693
Internet address	http://www.cheese.lt; http://www.suriai.lt

Kelmės Pieninė AB

Name of the subsidiary	Public limited company Kelmės Pieninė (hereinafter – Kelmės pieninė AB)
Authorized capital	2 494 808 LTL
Registered office	Raseinių str. 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 Centre 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.suriai.lt

4. Shareholders

Vilkyškių pieninė AB

The total number of shareholders as at 30 June 2010 was 844. The following were the major shareholders who had an ownership or held more than 5 percent of Company's share capital:

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
Gintaras Bertašius	6,016,506	1	6,016,506
Linas Strėlis	1,015,000	1	1,015,000
FMĮ Orion Securities UAB clients	1,747,756	1	1,747,756
Skandinaviška Enskilde Banken AB	1,000,036	1	1,000,036
Finasta enterprise group	784,887	1	784,887
SEB clients	636,355	1	636,355
Non-controlling interest	744,460	1	744,460
Total capital	**11,943,000**	**1**	**11,943,000**

Modest AB

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
Vilkyškių pieninė AB	600,213	1	600,213
Non-controlling interest	16,905	1	16,905
Total capital	**617,118**	**1**	**617,118**

Kelmės pieninė AB

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

5. Shareholders who have special rights of control

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

6. Voting right restrictions

There are no restrictions of voting right.

7. 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.

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

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 LTL. In 2008 the Company‘s authorised capital was increased up to 11,943 tLTL.

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.

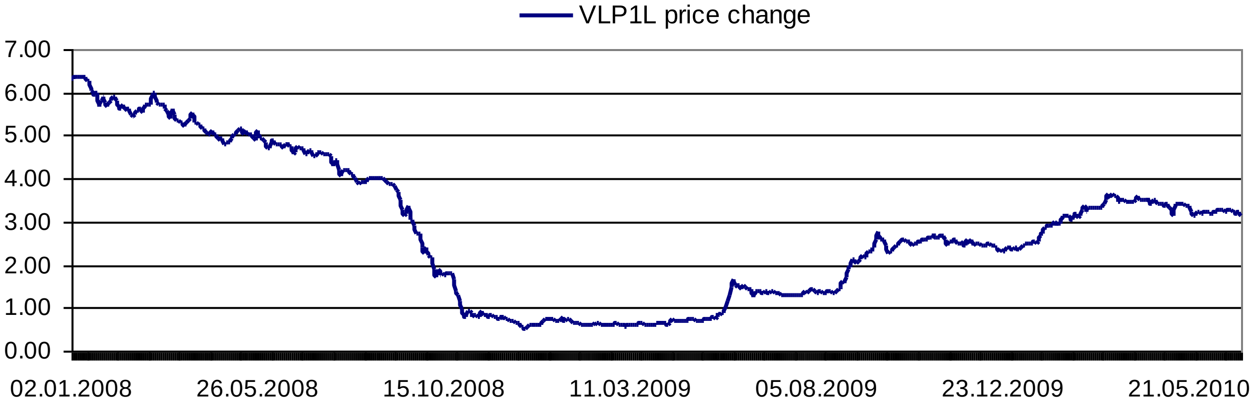
From the 1st of January 2008 shares of Vilkyškių pieninė AB have been quoted in the Official List of Vilnius Stock Exchange.

Quarter		Price (Lt)			Turnover, thou. LTL			Total turnover		Capitalization,
Beginning	End	Max.	Min.	Last	Max	Min	Last	Units	Thou. LTL	thou. LTL
2006 05 17	2007 04 20	5.82	4.60	5.65	648	0	0	531	2,821	52,844
2007 01 01	2007 03 31	5.82	5.20	5.70	126	0	0	57	312	53,312
2007 04 01	2007 06 30	5.70	5.01	5.20	381	0	20	168	931	48,636
2007 07 01	2007 09 30	6.50	4.80	5.90	3621	0	26	1,648	9,164	55,183
2007 10 01	2007 12 31	6.70	5.75	6.20	638	0	2	455	2,762	57,989
2008.01.01	2008.03.31	6.40	5.00	5.30	1507	0	12	694	3,848	49,571
2008.04.01	2008.06.30	5.52	4.51	4.70	238	0	16	245	1,210	56,132
2008.07.01	2008.09.30	4.75	2.05	2.26	325	0	3	246	913	26,991
2008.10.01	2008.12.31	2.50	0.52	0.60	70	0	0	731	696	7,166
2009.01.01	2009.03.31	0.79	0.52	0.63	242	0	1	1,040	660	7,524
2009.04.01	2009.06.30	1.69	0.60	1.35	83	0	3	531	567	16,123
2009.07.01	2009.09.30	2.86	1.25	2.32	558	0	0	1,024	1,954	27,708
2009.10.01	2009.12.31	2.75	2.27	2.40	66	0	5	197	486	28,663
2010.01.01	2010.03.31	3.70	2.32	3.52	233	0	51	560	1,775	41,084
2010.04.01	2010.06.30	3.67	2.95	3.21	74	0	2	305	1,030	37,620

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

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

Quarter		Price (Lt)		Turnover (Lt)	
Beginning	End	Maximum	Minimum	Maximum	Minimum
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



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.

10. The activity of the Issuer

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

Vilkyškių Pieninė AB specialises in production of fermented cheese, and also produces and sales scalded cream, processes whey and raw milk.

The Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 97,2% voting rights of the subsidiary. AB Modest specialises in production of fermented cheese, smoked cheese, cheese Mozzarella and other product.

The subsidiary Kelmės Pieninė AB is engaged in milk processing and production of dairy products. The Company holds 99% voting rights of AB Kelmės Pieninė. AB Kelmės Pieninė specialises in production of fresh dairy products.

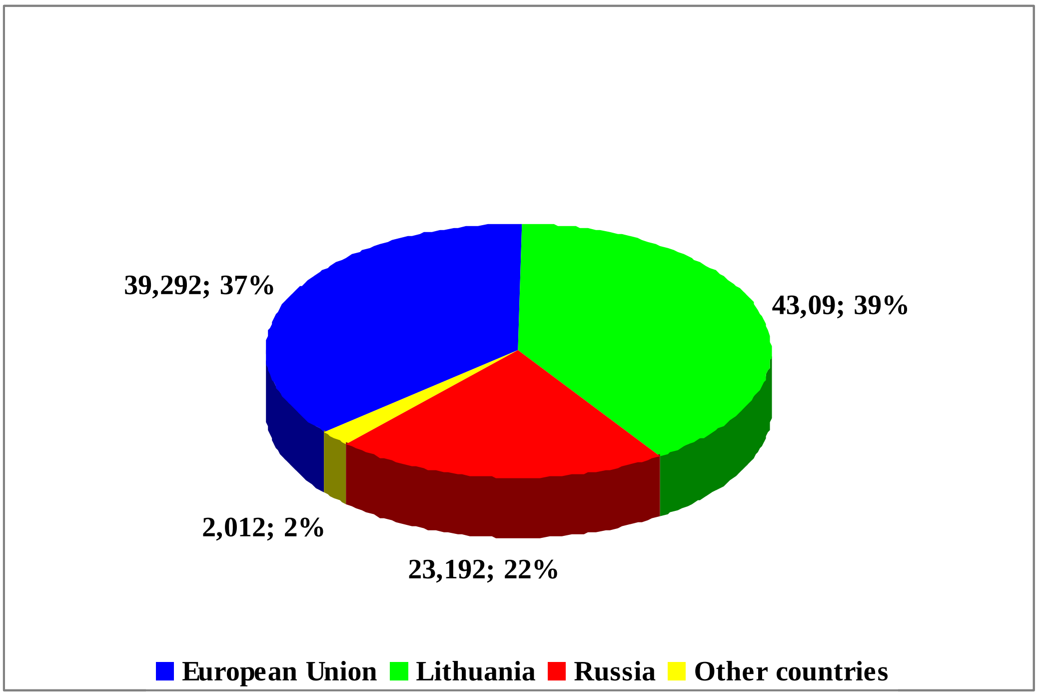
The whole assortment of goods of Vilkyškių Pieninė AB Group comprises even 13 types of cheese having 56 different names of products, also 13 types of butter and butter mixtures, 5 types of sour cream and 17 types of curd products.

Tables bellow summarizes key consolidated indicators of the Issuer.

The quantities of purchased milk were as follows:

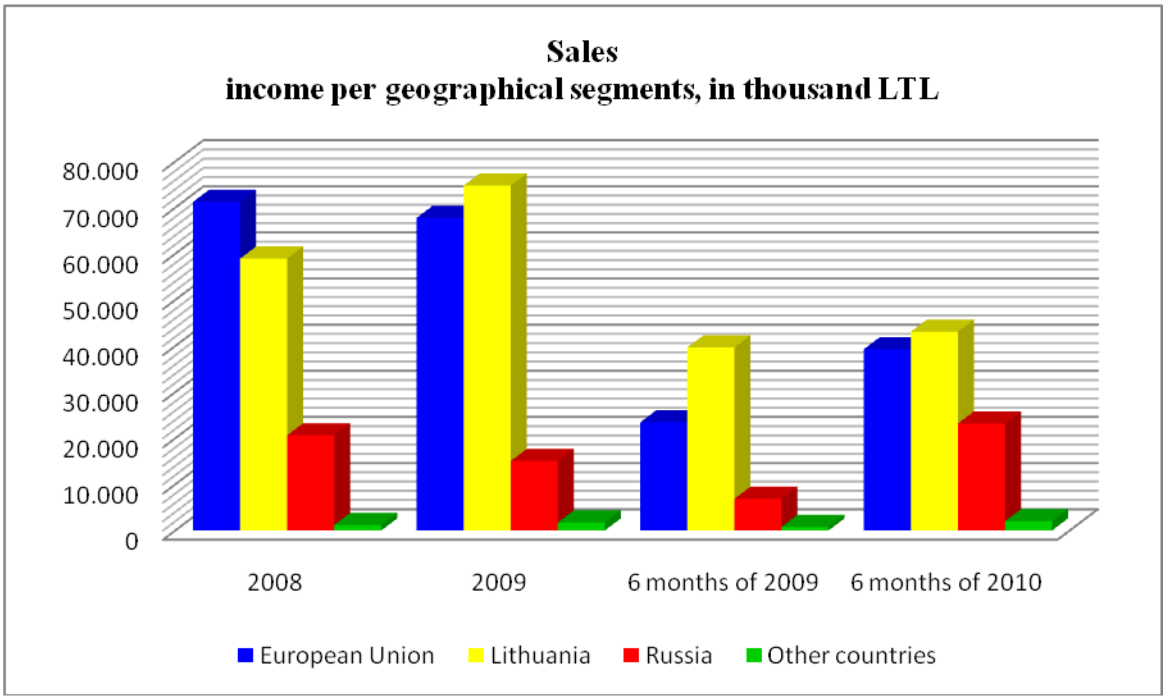
Purchased raw milk (recalculated into base fatness)	2008	2009	6 months of 2009	6 months of 2010
Purchased milk, in tons	139,705	151,150	61,422	78,917
Amount of purchased milk, in tLTL	95,603	77,705	29,440	57,744
Price of purchased milk, in LTL/t	684.0	514.1	479.3	731.7

Structure of consolidated sales income for the six month of 2010, expressed in LTL thousand and percents



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

Market	2008	2009	6 months of 2009	6 months of 2010
European Union	71,238	67,763	23,427	39,292
Lithuania	58,938	74,067	39,670	43,090
Russia	20,630	15,775	6,844	23,192
Other countries	1,175	1,713	762	2,012
Total	**151,981**	**159,318**	**70,703**	**107,586**



Consolidated sales income in the first half of 2010, compared with the same period last year increased by over 50 percent. The reasons can be disclosed as following:

1. Increased production volume (we processed 30 percent more raw milk);
2. Due to the increased production demand we lowered our stock;
3. Increased sales prices.

In the first quarter of 2010 increase in sales prices was significant, however it has been slower comparing to increase in purchase price of raw milk. Due to this Vilkyškių pieninė AB group incurred a loss of 2,2 million LTL during this period.

During the second quarter of 2010 the purchase prices for raw milk have been stabilized. Sales prices for some dairy products increased. Due to this Vilkyškių pieninė AB group earned a profit of 2,8 million LTL. An increased sales volume of cheese to the Russian market and an increase in sales prices of cream in the European Union had a significant influence on the growth of Vilkyškių pieninė AB group profit.

11. Main investments of Vilkyškių pieninė AB for the last 6 month

At 28th of October 2009 Vilkyškių pieninė AB and ir National Paying Agency under the ministry of Agriculture signed an agreement for 6,634 thousand LTL support to project “Improving competitiveness of dairy processing”. The total value of the project is 33,171 thousand LTL.

For the first half of the year Vilkyškių pieninė AB already invested 3,7 million LTL and purchased cooling equipment, boiler room and liquefied gas station equipment, modular insulating station equipment, separator and cream pasteurizer system.

12. 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

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

13. Management Bodies of the Issuer

Board:

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

Key administration staff of Vilkyškių Pieninė AB:

Name, surname	Education, speciality	Position held in the Issuer	Beginning of service*
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	01/01/2006**
Vaidotas Juškys	Higher education, IT engineer	Chief operation officer (COO)	17/05/2010
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	01/05/2000
Rimantas Jancevičius	Further education, zoo-technician	Member of the Board, Stock Director	02/01/1996
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	01/09/1993
Arvydas Zaranka	Further education, Technologist of dairy products	Production Director	30/07/1995
Alvydas Eičas	Higher education, teacher	Sales manager for the Baltic States	14/09/2004
Arminas Lunia	Higher education, Chemist	Export manager	20/08/2007
Rita Juodikienė	Higher education, Engineer of Information Management	Head of Purchase Department	23/09/2003
Mindaugas Dūda	Higher education, IT engineer	Head of IT Department	01/08/2008
Rasa Trybienė	Higher education, Psychologist	Head of Personnel	22/05/2009
Rasa Tamaliūnaitė	Higher education, finance and accounting	Chief Accountant	28/06/2010
Ligita Pudžiuvelytė	Higher education, Economist	Senior Economist	20/05/2004

* 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 Modest AB

Name	Surname	Education, speciality	Position held in the Issuer	Start of cadence	Start of service in the company
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board	11/12/2009	
Arvydas	Zaranka	Further education, technology of dairy products	Member of the Board	11/12/2009	
Vilija	Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	11/12/2009	
Vaidotas	Juškys	Higher education, IT engineer	Director	-	24/09/2009
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 Kelmės Pieninė AB

Name	Surname	Education, speciality	Position held in the Issuer	Start of cadence	Start of service in the company
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board	06/05/2008	
Arvydas	Zaranka	Further education, technology of dairy products	Member of Board	06/05/2008	
Algirdas	Žukauskas	Higher education, zoo-engineer	General Director, member of the board	06/05/2008	04/06/2008
Asta	Mikalauskienė	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
Algirdas	Guntarskis	Further education, Technician	Technical Director		21/02/2008

14. Employees

Average salary per staff groups:

On 30th of June 2009 the number of employees working for the group of Vilkyškių pieninė AB amounted to 765.

Employee group	Number of employees	Education				Average monthly salary (LTL)
		higher	college	secondary	incomplete secondary	
Managers	14	9	5			5,608
Executive specialists	63	22	25	16		2,446
Specialists	78	29	35	14		1,878
Workers	610	15	138	420	37	1,140
	765	75	203	450	37	1,405

On 30th of June 2010 the number of employees working for the group of Vilkyškių pieninė AB amounted to 753.

Employee group	Number of employees	Education				Average monthly salary (LTL)
		higher	college	secondary	incomplete secondary	
Managers	13	10	3			6,980
Executive specialists	61	27	24	10		2,932
Specialists	87	20	47	20		2,045
Workers	592	20	267	258	47	1,340

15. Information about following Corporate Governance Code

Vilkyškių pieninė AB essentially follows Corporate Governance Code for the Companies Listed on Vilnius stock exchange. There is no Supervisory Council in company. The governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. The Board consists of six members who are elected for the term of four years. Nomination and Remuneration Committee is establiched by the Management Board. The members of Audit Committee and the regulations of activity of the committee is approved by General Meeting of Shareholders. Each committee of the company is composed of three members.

*