

## RESPONSIBLE PERSONS' CONFIRMATION

We, Chief Executive Officer at interim Robertas Pažemeckas and Chief Financial Officer Dalia Gecienė, confirm that interim financial statement for the first six months of 2008 is formed in compliance with applicable accounting standards, corresponds to the facts and properly indicates the assets of Žemaitijos pienas AB and total assets of the consolidated enterprises as well as liabilities, financial status and profit.

Acting General director

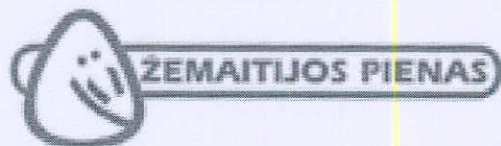
Chief Financial Officer

25 August 2008



Robertas Pažemeckas

Dalia Gecienė



## **ŽEMAITIJOS PIENAS AB**

**Interim Report for the first six months of 2008**

**Telšiai, August 2008**

## **1. The period covered in the prepared report**

The present report has been prepared for the first six months of 2008 according to the "Procedures for preparation and furnishing the periodical and additional information" approved by the resolution No. 1K-3 under the Securities Commission of the Republic of Lithuania dated 23 02 2007. Žemaitijos pienas AB in this report may be designated as Company, Enterprise or Issuer.

## **2. Major data about the Issuer**

Issuer name:	Žemaitijos pienas AB
Company code:	180240752
Domicile address:	Sedos St. 35, Telšiai, Lithuania
Legal-organizational form:	a stock company, private limited liability legal entity.
Authorized capital:	LTL 48,375,000 Lt, the authorized capital is divided into 48,375,000 ordinary registered shares, a par value per share is LTL 1
Enterprise register:	Register of Legal Persons of the Republic of Lithuania
Registry date:	23 June 1993
The date of registration of the last edit of the Articles of Association:	12 March 2008
Period of activity:	unlimited
Telephone:	+370444 22201
Fax :	+370444 74897
E-mail:	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
Internet website:	<a href="http://www.zpienas.lt">www.zpienas.lt</a>

## **3. Nature of the issuer's main business**

The main bussines of the Company – production and sales of milk products.

## **4. The Group's enterprises**

The subsidiaries run by the Company:

UAB "Žemaitijos pieno žaliava", enterprise code 280716750.

Authorized capital – LTL mio 1. The Company owns 100% of shares.

Domicile address – Sedos st. 35, Telšiai, Lithuania.

Nature of business – business foreseen in the Articles of Association – buyinge of milk, the company is not performing this business currently.

ŽŪK "Tarpučių pienas", enterprise code 1151449845.

Authorized capital – LTL 496,027. The Company owns 10.08% of shares.

Domicile address – Klaipėdos st. 3, Šilutė Lithuania.

Nature of business – chilling of raw milk.



ŽŪK „Sodžiaus pienas“ enterprise code 177975514.  
 Authorized capital – LTL 694,570. The Company owns 15.09% of shares.  
 Domicile address – Šilalės st. 35, Laukuva, Šilalės district, Lithuania.  
 Nature of business – chilling of raw milk.

ABF „Šilutės Rambynas“, enterprise code 277141670.  
 Authorized capital – LTL 8,596,650. The Company owns 87,82% of shares.  
 Domicile address - Klaipėdos st.3, Šilutė, Lithuania.  
 Nature of business – production of ferment cheese.

AB „Žemaitijos pienas“ has 7 branches:

- Vilnius branch, address Algirdo st. 40/13, Vilnius
- Kaunas branch, address Kėdainių st. 8A, Kaunas
- Anykščiai branch, address Vilties st. 4A, Anykščiai
- Alytus branch, address Putinių st. 23, Alytus
- Klaipėda branch, address Šilutės pl. 33, Klaipėda
- Panevėžys branch, address J. Janonio st. 9, Panevėžys
- Telšiai branch, address Sedos st. 35, Telšiai

#### **5. Data on trading in shares of the enterprises belonging to the Group in the regulated markets**

Only the Company's shares are listed on the added list of Vilnius Stock Exchange. Securities ISIN code LT0000121865, number of shares – 48,375,000.

Transactions with the Company's shares in Vilnius Stock Exchange:

Quarter	The highest price, LTL	The lowest price, LTL	Max one session turnover, LTL	Min one session turnover, LTL	Last session price, LTL	Last session turnover, LTL
I quart. 2008	25,80	2,20*	264.607,25	0	2,20	6.490,00
II quart. 2008	2,28	1,64	88.812,00	0	1,71	1.881,00

\* - On 26 March 2008 d. the price of share was recalculated because of changing nominal value of the share from LTL 10 into LTL 1.

#### **6. Information about agreements with the intermediaries of public trading of securities**

On 16 July 2004 the Company has concluded an agreement with Šiaulių bankas AB, (address Tilžės st. 149, Šiauliai) due to accounting of securities, issued by the Company. Accordingly this agreement Šiaulių bankas manages the Companies securities accounts since 23 July 2004.

## **7. Acquisition of the own shares**

The Company neither acquired its own shares nor sold them to others during reported period.

## **8. Shareholders**

As of 18 April 2008 the total number of shareholders comprised of 3069.

The following shareholders owned more than 5% of the authorized capital:

No	Shareholder	Number of shares under ownership	Number of shares owned by persons operating together	Percentage of the authorized capital, % (operating together %)	Percentage of votes, %
1.	Algirdas Pažemeckas	19 705 870	-	-	44.74
2.	Skandinaviska Enskilda Banken Clients	3 866 690	-	-	7.99
3.	Klaipėdos pienas AB	3 275 620	-	-	6.77

## **9. Other information about the Issuer**

### **9.1. Structure of the Issuer's authorized capital**

The Company Articles of Association with present authorized capital is registered at State Enterprise Centre of Registers on 12 March 2008. The authorized capital size is LTL 48,375,000. The capital is divided into 48,375,000 ordinary registered shares. A par value per share is LTL 1. One share gives one vote to a shareholder during the General Shareholders' Meeting. Shareholders are entitled with interest and non-interest rights as well as to commitments defined in the Law on Stock Companies of the Republic of Lithuania.

### **9.2. All the restrictions on assignment of securities**

No restrictions.

### **9.3. Shareholders entitled to special control rights and definitions of these rights**

Shareholders control the Company through the elected Supervisory Board. Their functions are defined in the Law on Stock Companies of the Republic of Lithuania.

### **9.4. All the limits applied to voting rights**

A shareholder has no right to vote when Shareholders Meeting is making a decision regarding a prerogative right to acquire the Company's issued shares or regarding recall of the converted bonds in case the agenda of the general shareholders' meeting foresees that the right to acquire these securities is granted to him, his close relative, shareholder's spouse or cohabitant, when the partnerships is registered under the applicable law, and to the spouse's close relative, when a shareholder is a natural entity, also to the shareholder's patron company or shareholder's subsidiary, when a shareholder is a legal entity.

Persons that do not report the Company or Securities Commission of the Republic of Lithuania about the share block acquisition lose their votes in the General Shareholders' Meeting for 2 years



after disclosure of the incorrect data under the Law and legal acts of the Republic of Lithuania, which exceed the amount of the last reported block.

## **10. Employees**

On 30 June 2008 the Company group employed a staff of 2163, by end-2007 – 1762 employees, on 30 June 2007 -2000 employees.

At the end of the reporting period 60 employees had university education, 107 – college education, 346 – special secondary and secondary education, the education of others group employees is not finished secondary and primary.

## **11. Transactions with the related parties**

During the reported period there were transactions entered with the related parties on usual activity basis. The related parties are deemed to be the members of the Company Supervisory Council and Company Board, the close relatives of the mentioned related parties and the Company subsidiaries. All the transactions have been entered in terms of the usual market conditions. The comprehensive description of transactions entered with the related parties is provided in the enclosed financial statements.

## **12. Information about the compliance with the Corporate Governance Code**

The Company obeys most of the rules defined in the Corporate Governance Code for Companies listed on the Vilnius Stock Exchange. The members of Supervisory Council and members of the Board are the employees of the Company, therefore they are not considered to be the independent members. The Company's Supervisory Council and Board making resolutions represent the shareholders' interests.

## **13. Data on the publicly announced information**

The information announced publicly during the the first six months of 2008:

- 2008-01-04 - Summon of the extraordinary General Meeting of Shareholders;
- 2008-01-28 - Draft resolutions of the extraordinary General Meeting of Shareholders of Žemaitijos Pienas AB to be held on 8 February 2008;
- 2008-02-11 - Resolutions of the Extraordinary General Meeting of Shareholders;
- 2008-02-29 - Performance results 2007 of Žemaitijos pienas group;
- 2008-02-29 - Žemaitijos pienas AB interim report for 12 months of the year 2007;
- 2008-02-29 - Žemaitijos pienas AB interim report for 12 months of the year 2007 (correction);
- 2008-03-04 - Regarding resolution of the Competition Counsel;
- 2008-03-13 - The Amendment of the Articles of Association of Žemaitijos pienas AB have been registered;
- 2008-03-15 - The General Meeting of Shareholders of Žemaitijos pienas AB is called on April 18, 2008;
- 2008-04-07 - The decision of the Board of Žemaitijos Pienas AB of 18 March, 2008;
- 2008-04-21 - Resolutions of the ordinary General Meeting of Shareholders of Žemaitijos Pienas AB held on 18th April 2008;



2008-05-07 - Notification on transaction concluded by managers of the company;  
 2008-05-13 - Financial results of Žemaitijos Pienas AB for the 1st quarter of 2008;  
 2008-05-20 - Regarding acquisition of shares;  
 2008-05-29 - Financial accountability of 1st quarter of 2008;  
 2008-06-17 - Addition of the Consolidated Annual Report;  
 2008-06-26 - Financial accountability of 1st quarter of 2008 (addition)  
 2008-07-25 - Financial results of Žemaitijos pienas AB for the first six months of 2008.

Žemaitijos pienas AB has informed the Securities Commission and Vilnius Stock Exchange about all the stock events. The notifications about summoning of general shareholders' meetings as well as their resolutions have been additionally published in the newspapers "Valstiečių laikraštis" and "Kalvotoji Žemaitija". Other regulated information has been published on the websites of Vilnius Stock Exchange and the Securities Commission.

#### **14. The Company bodies**

The Company Bodies are as follows: General Meeting of Shareholders, Supervisory Council, the Board and Chief Executive Officer (CEO) of the Company. The Chairman of the Board is also the CEO.

The Company bodies observe laws and other legal acts of the Republic of Lithuania and follow the requirements of the Articles of Association of the Company.

The Supervisory Council is a collegial body supervising the activities of the Company. It is directed by its Chairman. The General Meeting of the Shareholders elects the Supervisory Council, consisting of 3 members.

The Board is a collegial Company management body consisting of 5 members. It manages the Company, handles its matters and answers under the laws for execution of the Company financial services. Order of the Board's work is set by the Board work regulations. The Board is elected by the Council for a term of 4 years.

The CEO arranges everyday activities of the Company and performs other actions necessary to perform his functions, to implement decisions of the Company bodies and to secure the Company activities.

#### **15. Members of the collegial bodies, a CEO of the company and a chief financial officer**

Name, surname	Position held at Company	Capital share owned, %	Vote share possessed, %
Artūras Kanapienis	Chairman of the Council	0,47	0,47
Robertas Pažemeckas	Member of the Council	-	-
Romusas Jarulaitis	Member of the Council	2,29	2,29
Algirdas Pažemeckas	Chairman of the Board Chief Executive Officer	44,74	44,74
Romusas Jarulaitis	Member of the Board	2,29	2,29

Irena Baltrušaitienė	Member of the Board	1,19	1,19
Dalia Gecienė	Member of the Board, Chief Financial Officer	1,38	1,38
Algirdas Bladžinauskas	Member of the Board	–	–

Amounts calculated in total and in average sizes allocated to one member of the collegial body during the accounting period:

Members of the management bodies	Number of people	Total amounts of salaries/bonuses, other payoffs from profit (LTL)	Average amounts of salaries/bonuses, other payoffs from profit (LTL)
Council members	3	215.545	11.975
Board members	5	767.364	25.579
Administration members	112	2.711.874	4.036

#### 16. Procedure for Articles of Association amendment

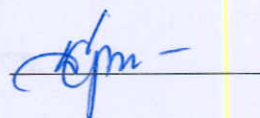
The Company Articles of Association may be amended only by a resolution of the general shareholders' meeting made by 2/3 majority of votes except exclusive cases foreseen by the law.

Acting General Director



Robertas Pažemeckas

Chief Financial Officer



Dalia Gecienė

28 August 2008





**Žemaitijos pienas AB**  
**Approval of responsible persons**

28 August 2008  
Telšiai

**Regarding drafting of financial statement for the six months ended 30 June 2008**

Following the Article No.22 of Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional approved by Securities Commission of the Republic of Lithuania we, Robertas Pažemeckas, General Director And Dalia Gecienė, Chief Accountant, hereby confirm that, to the our knowledge, the attached JSC “Žemaitijos Pienas” Consolidated Interim Financial Statements for the six monts of 2008 prepared in accordance with International Financial Reporting Standards are true and fairly present assets, liabilities, financial position, profit or loss of JSC “Žemaitijos Pienas” group consolidated companies.

Acting General Director



Chief Accountant

A handwritten signature in blue ink, appearing to read "R. Pažemeckas".

Robertas Pažemeckas

A handwritten signature in blue ink, appearing to read "D. Gecienė".

Dalia Gecienė

AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai  
CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008  
(all amounts are in LTL thousand unless otherwise stated )

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## AB „ŽEMAITIJOS PIENAS“

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED  
30 JUNE 2008



## Balance sheets

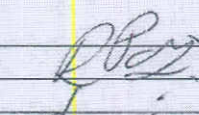
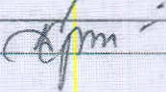
	Group	
	Notes As of 30 June 2008	As of 31 December 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	312	571
Property, plant and equipment	80.210	50.751
Investment property	4.632	4.857
Available – for – sale investments	129	14
Investments into subsidiaries	-	-
Non-current receivables	2.151	2.191
Deferred income tax asset	746	653
<b>Total non-current assets</b>	<b>88.180</b>	<b>59.037</b>
<b>Current assets</b>		
Inventories	4 50.006	46.289
Prepayments	3.021	1.342
Trade receivables	31.778	26.882
Receivables from subsidiaries	-	-
Receivables from other related parties	6.572	12.563
Other receivables	5.670	6.717
Cash and cash equivalents	12.009	13.053
<b>Total current assets</b>	<b>109.056</b>	<b>106.846</b>
<b>Total assets</b>	<b>197.236</b>	<b>165.883</b>



## Balance sheets (cont'd)

		Group	
	Notes	As of 30 June 2008	As of 31 December 2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		48.375	48.375
Legal reserve		4.838	4.838
Retained earnings		32.581	42.942
		85.794	96.155
Minority interest		2.716	1.037
<b>Total shareholders' equity</b>		<b>88.510</b>	<b>97.192</b>
<b>Non-current liabilities</b>			
Grants received		4.654	2.999
Long-term loans from related parties		43.122	20.631
Financial lease obligations		8.728	5.553
Other current liabilities		-	-
<b>Total non-current liabilities</b>		<b>56.504</b>	<b>29.183</b>
<b>Current liabilities</b>			
Current portion of non-current loans		1.607	2.899
Current portion of non-current financial lease obligations		1.455	2.316
Trade payables		28.822	21.703
Payables to subsidiaries		-	-
Payables to other related parties		6.293	2.960
Income tax payable			4.648
Other current liabilities		14.045	4.982
<b>Total current liabilities</b>		<b>52.222</b>	<b>39.508</b>
<b>Total liabilities and shareholders' equity</b>		<b>197.236</b>	<b>165.883</b>

The accompanying notes are an integral part of these financial statements.

Acting General Director	Robertas Pažemeckas		28 August 2008
Chief Accountant	Dalia Gecienė		28 August 2008



## Income statements

		Group	Group	
		As of 30	As of 30	01 April 2008 - 01 April 2007 -
		June 2008	June 2007	30 June 2008 30 June 2007
Sales	3	234.906	202.911	121.509 102.599
Cost of sales		(206.339)	(164.425)	(107.360) (80.390)
<b>Gross profit</b>		<b>28.567</b>	<b>38.485</b>	<b>14.149 22.209</b>
Operating expenses		(41.897)	(33.421)	(21.028) (17.727)
Other operating income, net		3.487	3.364	2.015 2.103
<b>Profit from operations</b>		<b>(9.843)</b>	<b>8.429</b>	<b>(4.864) 6.585</b>
Financial and investment activities		(518)	(1.047)	(126) (418)
<b>Profit before income tax</b>		<b>(10.361)</b>	<b>7.382</b>	<b>(4.990) 6.167</b>
Income tax			(1.178)	(1.176)
<b>Net profit</b>		<b>(10.361)</b>	<b>6.204</b>	<b>(4.990) 4.991</b>

The accompanying notes are an integral part of these financial statements.

Acting General Director	Robertas Pažemeckas	28 August 2008
Chief Accountant	Dalia Gecienė	28 August 2008

### Statements of changes in equity

Group	Attributable to shareholders of the Company					
	Share capital	Legal reserve	Retained earnings	Total	Minority interest	Total
<b>Balance as of 31 December 2006</b>	<b>48.375</b>	<b>4.838</b>	<b>19.400</b>	<b>72.613</b>	<b>1.037</b>	<b>73.650</b>
Dividends declared	-	-	(968)	(968)	-	(968)
Net profit for six months	-	-	6.204	6.204	-	6.204
<b>Balance as of 30 June 2007</b>	<b>48.375</b>	<b>4.838</b>	<b>24.637</b>	<b>77.850</b>	<b>1.037</b>	<b>78.887</b>
<b>Balance as of 31 December 2007</b>	<b>48.375</b>	<b>4.838</b>	<b>42.942</b>	<b>96.155</b>	<b>1.037</b>	<b>97.192</b>
Net profit for the six months	-	-	(10.361)	(10.361)	1.679	(8.682)
<b>Balance as of 30 June 2008</b>	<b>48.375</b>	<b>4.838</b>	<b>32.581</b>	<b>85.794</b>	<b>2.716</b>	<b>88.510</b>

The accompanying notes are an integral part of these financial statements.

Acting General Director	Robertas Pažemeckas			28 August 2008
Chief Accountant	Dalia Gecienė			28 August 2008



### **Cash flow statements**

	Group	
	As of 30 June 2008	As of 30 June 2007
<b>Cash flows from (to) operating activities</b>		
Net profit	(10.361)	6.204
<b>Adjustments for non-cash items:</b>		
Depreciation and amortization	7.291	8.268
Amortization of grants received	(663)	(957)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	-	(267)
Result from financial and investment activities	2.438	1.071
Allowance for receivables	(236)	68
Income tax expenses	-	-
Other non-cash (income) expenses	-	-
	(1.531)	14.387
<b>Changes in working capital:</b>		
Decrease in inventories	(3.717)	2.382
(Increase of) Receivables	3.270	-
Decrease in prepayments and other current assets	(1.679)	215
Increase in trade payables, payables to related parties and payables to subsidiaries	9.324	2.968
Income tax (paid)	-	-
Increase (decrease) in other current liabilities	19.622	(3.852)
<b>Net cash flows from operating activities</b>	<b>25.289</b>	<b>16.100</b>
<b>Cash flows from (to) investing activities</b>		
(Acquisition) of property, plant and equipment and intangible assets	(50.219)	(7.990)
Disposal of property, plant and equipment	14.218	124
Proceeds from sales of investments	-	-
Repayment of loans granted	2.018	2.091
Loans (granted)	(1.742)	(1.952)
Interest received	133	72
<b>Net cash flows (to) investing activities</b>	<b>(35.592)</b>	<b>(7.655)</b>

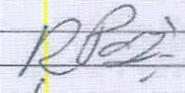
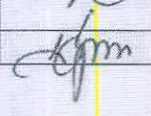
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**Cash flow statements (cont'd)**

	Group	
	As of 30 June 2008	As of 30 June 2007
<b>Cash flows from (to) financing activities</b>		
Dividends (paid)	6	(914)
Cash, (transferred) during reorganization	-	-
Loans received	25.666	16.513
(Repayment) of loans	(1.527)	(22.365)
Financial lease (payments)	(15.175)	2.481
Sponsorship Received	1.655	3.277
Other revenue from financial activities	(265)	152
Interest (paid)	(1.101)	(1.230)
<b>Net cash flows (to) financial activities</b>	<b>9.259</b>	<b>(2.086)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1.044)</b>	<b>6.359</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>13.053</b>	<b>14.534</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>12.009</b>	<b>20.893</b>

The accompanying notes are an integral part of these financial statements.

Acting General Director	Robertas Pažemeckas		28 August 2008
Chief Accountant	Dalia Gecienė		28 August 2008



## Notes to the financial statements

### 1. General information

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company's shares are traded on the Current List of the Vilnius Stock Exchange.

As of 30 June 2008 and 2007 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 10 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2007 and 30 June 2008, the Company also had no its own shares.

As of 30 June 2008 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
UAB Žemaitijos pieno žaliava	Sedos Str. 35, Telšiai, Lithuania	100,00%	100%	1.000	(9)	718	Milk collection services
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	24	482	Milk collection services
ŽŪK Sodžiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	(1)	1.305	Milk collection services
ABF „Šilutės Rambynas“	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	10.878	185	12.381	Cheese production

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries. ABF „Šilutės Rambynas“ is considered a subsidiary because AB Žemaitijos Pienas controls its activities and controls more than 50% of its shares. UAB Žemaitijos pieno žaliava had no active operations in the year ended 31 December 2007 and in the six months ended 30 June 2008.

As of 30 June 2008, the number of employees of the Group was 2163 ( as of 30 June 2007 – 2000). The number of employees increased because of the merge with ABF „Šilutės Rambynas“.

### 2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the three months ended 31 March 2008 are as follows:

#### 2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### 2.2. Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.



### 2.3. Principles of consolidation

The consolidated financial statements of the Group include AB Žemaitijos pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Intercompany balances and transactions, including unrealized profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

### 2.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Company and the Group do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible recognition intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. Amortisation expenses of intangible assets are included into operating expenses.

### 2.5. Property , plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Buildings	20 - 40 years
Machinery and equipment	5 years
Vehicles and other equipment	4 - 10 years

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

### 2.6. Investment property

Investment property of the Group consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20-40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.



## 2.7. Inventories

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory is fully written-off.

## 2.8. 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 know 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 and demand deposits.

## 2.9. Financial assets and financial liabilities

The Group and the Company recognize financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

### Investments

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 investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

### Receivables and loans granted

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

### Loans received

Loan costs are expensed as incurred.

Loans are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the loans.

## 2.10. Financial and operating leases

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

## 2.11. Grants

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in caption "Grants received" on the balance sheet.



#### 2.12. Income tax

Income tax is calculated based on the Lithuanian tax legislation

On the year 2008 the income tax applied to the companies in the Republic of Lithuania is 15%.

#### 2.13. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risk and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

#### 2.14. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

#### 2.15. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the transaction of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

#### 2.16. Guarantees

Financial guarantees provided by the Group are initially recognized in the financial statements at fair value, under other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognized in the income statement in financial income on a straight-line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties

#### 2.17. Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.

### 3. Segment information

For management purposes the activities of the Group and Company are organized as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:



AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008**  
(all amounts are in LTL thousand unless otherwise stated )

	Group	
	As of 30 June 2008	As of 30 June 2007
<b>Sales</b>		
Lithuania	127.762	112.589
Other Baltic States and CIS countries	57.117	38.954
Other European countries	47.354	37.079
USA	-	47
Other	2.673	14.242
	<b>234.906</b>	<b>202.911</b>

**4. Inventories**

	Group	
	As of 30 June 2008	As of 30 June 2007
Raw materials	11.411	12.004
Finished goods and work in process	33.772	22.426
Goods for resale	4.823	2.265
	<b>50.006</b>	<b>36.695</b>

**5. Loans' repayment terms:**

	30 June 2008
2008 m.	1.607
2009 m.	17.491
2010 m.	1.158
2011 m.	1.670
2012 m.	1.670
2013 m.	21.133
<b>Total Loans on 31 March 2008</b>	<b>44.729</b>

31 March 2008, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	30 June 2008
<b>Loan currency:</b>	
Euro	28.729
Litas	16.000
	<b>44.729</b>

**6. Subsequent events**

Subsequent events was not after was make consolidated financial statements.