



21/03/2011

## CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No.22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we – General Manager Algirdas Pažemeckas and the Accountant General Dalia Gecienė of the Joint Stock Company *AB Žemaitijos pienas* - hereby confirm that, to the best of our knowledge, the attached Audited Consolidated Collection of Financial Statement of *AB Žemaitijos pienas* for the year 2010, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss, as well as correct business development and activity review of *AB Žemaitijos pienas* together with the description of the main risks and uncertainties encountered.

ENCLOSURE: Audited Consolidated Collection of Financial Statement of *AB Žemaitijos pienas* for the year 2010, prepared in accordance with the International Financial Reporting Standards; Audited Annual Consolidated Report of *AB Žemaitijos pienas* for the year 2010; and Report by *AB Žemaitijos pienas* regarding compliance to the Management Code of the companies listed in the Vilnius Stock Exchange.

General Manager

Algirdas Pažemeckas

Accountant General

Dalia Gecienė

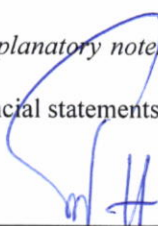
**STATEMENTS OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2010**

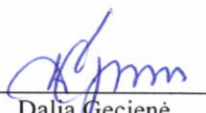
(All amounts in LTL thousands unless otherwise stated)

ASSETS	Notes	The Group		The Company	
		2010	2009	2010	2009
<b>Non-current assets</b>					
Intangible assets		23	56	18	47
Property, plant and equipment	5	65,357	78,007	57,775	57,775
Investment property	6	-	-	4,882	4,882
Investments available for sale		-	-	-	-
Investments into subsidiaries	1	4	4	10,942	11,037
Loans granted	7	3,760	973	3,760	973
Deferred income tax asset	23	1,606	1,703	1,545	1,629
<b>Total non-current assets</b>		<b>70,749</b>	<b>80,743</b>	<b>66,781</b>	<b>76,343</b>
<b>Current assets</b>					
Inventories	8	62,081	37,871	53,426	33,218
Prepayments		641	453	618	407
Trade accounts receivable	9	36,265	29,329	41,374	30,756
Other accounts receivable	10	6,542	3,030	6,450	2,955
Deposits		5,000	6,161	5,000	6,161
Cash and cash equivalents	11	8,766	24,629	8,345	24,273
<b>Total current assets</b>		<b>119,294</b>	<b>101,473</b>	<b>115,214</b>	<b>97,770</b>
<b>TOTAL ASSETS</b>		<b>190,043</b>	<b>182,216</b>	<b>181,995</b>	<b>174,113</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	12	48,375	48,375	48,375	48,375
Legal reserve		4,838	-	4,838	-
Other reserves		10,000	-	10,000	-
Retained earnings		56,842	50,465	56,454	50,335
<b>Equity attributable to equity holders of the Company</b>		<b>120,055</b>	<b>103,678</b>	<b>119,667</b>	<b>103,548</b>
Minority interest		1,840	2,626	-	-
<b>Total Equity</b>		<b>121,895</b>	<b>106,304</b>	<b>119,667</b>	<b>103,548</b>
<b>Non-current liabilities</b>					
Grants received	13	2,678	3,200	1,002	1,235
Borrowings	14	8,838	24,474	8,838	24,474
Obligations under finance lease	15	6,575	11,249	5,968	10,287
Deferred income tax liability		784	542	-	-
Other current liabilities	23	1,879	1,867	1,879	1,867
<b>Total non-current liabilities</b>		<b>20,754</b>	<b>41,333</b>	<b>17,687</b>	<b>37,863</b>
<b>Current liabilities</b>					
Borrowings	14	1,670	1,158	1,670	1,158
Obligations under finance lease	15	4,673	5,107	4,317	4,757
Trade accounts payable	17	25,652	18,256	24,619	17,704
Income tax payable		2,822	1,045	2,820	1,042
Other accounts payable	18	12,578	9,015	11,215	8,041
<b>Total current liabilities</b>		<b>47,394</b>	<b>34,580</b>	<b>44,641</b>	<b>32,702</b>
<b>Total liabilities</b>		<b>68,148</b>	<b>75,913</b>	<b>62,328</b>	<b>70,565</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>190,043</b>	<b>182,216</b>	<b>181,995</b>	<b>174,113</b>

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

The consolidated financial statements and financial statements were approved on 15 March 2011 and signed by:

  
Algirdas Pažemeckas  
General Director

  
Dalia Gecienė  
General financier

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

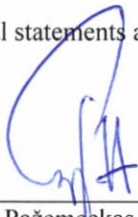
**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010**

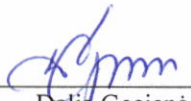
(All amounts in LTL thousands unless otherwise stated)

	Notes	The Group		The Company	
		2010	2009	2010	2009
Sales	19	433,692	372,825	427,735	371,190
Cost of sales		(344,136)	(303,021)	(342,681)	(303,246)
<b>GROSS PROFIT</b>		<b>89,555</b>	<b>69,804</b>	<b>85,054</b>	<b>67,944</b>
Operating expenses	20	(65,144)	(52,172)	(63,840)	(52,525)
Other operating income and expenses	21	(1,531)	(2,080)	649	847
<b>(LOSS) PROFIT FROM OPERATIONS</b>		<b>22,880</b>	<b>15,552</b>	<b>21,863</b>	<b>16,266</b>
Excess of the Group's interest in the fair value of net assets over the cost of the business combination		-	-	-	-
Finance costs		(466)	(1,903)	(466)	(1,852)
Other financial income and expenses	22	680	648	716	603
<b>(LOSS) PROFIT BEFORE TAX</b>		<b>23,095</b>	<b>14,297</b>	<b>22,114</b>	<b>15,017</b>
Income tax (benefit) expense	23	(3,773)	(3,028)	(3,532)	(2,684)
<b>NET (LOSS) PROFIT</b>		<b>19,322</b>	<b>11,269</b>	<b>18,582</b>	<b>12,333</b>
<b>ATTRIBUTABLE TO:</b>					
Shareholders of the Company		19,225	11,196	18,582	12,333
Minority interest		97	73	-	-
		<b>19,322</b>	<b>11,269</b>	<b>18,582</b>	<b>12,333</b>
<b>Basic and diluted earnings per share (LTL)</b>	25	<b>0.40</b>	<b>0.23</b>	<b>0.38</b>	<b>0.25</b>

*The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements.*

The consolidated financial statements and financial statements were approved on 15 March 2011 and signed by:

  
 \_\_\_\_\_  
 Algirdas Pažemeckas  
 General Director

  
 \_\_\_\_\_  
 Dalia Gecienė  
 General financier

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**The Group**

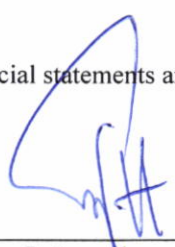
	Share capital	Legal reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Balance as of</b>							
<b>31 December 2008</b>	<b>48.37</b>						
	5	4.838	-	39.269	92.482	2.553	95.035
Dividends paid	-	-	-	-	-	-	-
Net profit	-	-	-	11.196	11.196	73	11.269
<b>Balance as of</b>							
<b>31 December 2009</b>	<b>48.375</b>	<b>4.838</b>	-	<b>50.465</b>	<b>103.678</b>	<b>2.626</b>	<b>106.304</b>
Bonuses paid to board members	-	-	-	(2.463)	(2.463)	-	(2.463)
Transfer to other reserves	-	-	-	(10.000)	-	-	-
Liquidation of subsidiary	-	-	10.000	(385)	(385)	(884)	(1.268)
Net profit	-	-	-	19.225	19.225	97	19.322
<b>Balance as of</b>							
<b>31 December 2010</b>	<b>48.375</b>	<b>4.838</b>	<b>10.000</b>	<b>56.842</b>	<b>120.055</b>	<b>1.840</b>	<b>121.895</b>


*The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements.*

**The Company**

	Share capital	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance as of</b>					
<b>31 December 2008</b>	<b>48.375</b>	<b>4.838</b>	-	<b>38.002</b>	<b>91.215</b>
Dividends paid	-	-	-	-	-
Net profit	-	-	-	12.333	12.333
<b>Balance as of</b>					
<b>31 December 2009</b>	<b>48.375</b>	<b>4.838</b>	-	<b>50.335</b>	<b>103.548</b>
Bonuses paid to board members	-	-	-	(2.462)	(2.462)
Transfer to other reserves	-	-	10.000	(10.000)	-
Net profit	-	-	-	18.582	18.582
<b>Balance as of</b>					
<b>31 December 2010</b>	<b>48.375</b>	<b>4.838</b>	<b>10.000</b>	<b>56.454</b>	<b>119.667</b>

The consolidated financial statements and financial statements were approved on 15 March 2011 and signed by:

  
Algirdas Pažemeckas  
General Director

  
Dalia Gecienė  
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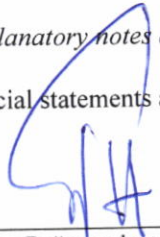
**CASH FLOW STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010**


(All amounts in LTL thousands unless otherwise stated)

	The Group		The Company	
	2010	2009	2010	2009
<b>Cash flow from operating activities</b>				
Net (loss) profit	19,322	11,269	18,582	12,333
<b>Adjustments to net (loss) profit</b>				
Depreciation and amortization	18,802	17,868	16,816	16,468
Amortization of grants received	(1,160)	(957)	(902)	(712)
Loss (gain) from disposal and write-offs of property, plant and equipment	(88)	-	(88)	32
Income tax expenses	3,688	3,028	3,448	2,684
Impairment of accounts receivable	103	2	103	2
Impairment of property, plant and equipment	14	(2,286)	40	(2,299)
Excess of the Group's interest in the fair value of net assets over the cost of the business combination	-	-	-	-
Interest (income)	(297)	(772)	(297)	(771)
Interest expenses	466	1,953	466	1,852
Write off inventories to net realizable value	1,572	(453)	1,572	(471)
Other financial (income) and expenses	(175)	124	(174)	168
Loss from liquidation of subsidiaries	(103)	-	103	-
	<b>42,145</b>	<b>29,777</b>	<b>39,462</b>	<b>29,286</b>
<b>Changes in working capital:</b>				
(Increase) in inventories	(24,210)	25,117	(20,209)	22,447
(Increase) decrease in trade receivables	(6,906)	413	(10,618)	2,202
Decrease (increase) in prepayments	(187)	127	(212)	(528)
(Increase) in other receivables	(3,512)	5,337	(3,495)	4,235
(Decrease) increase in trade payables	6,038	(11,194)	6,915	(9,793)
Increase (decrease) other accounts payable	3,021	2,873	3,174	2,631
Income tax paid	(3,331)	-	(3,331)	-
Interest paid	(486)	(1,903)	(466)	(1,852)
<b>Net cash flows (to) from operating activities</b>	<b>12,572</b>	<b>50,548</b>	<b>11,220</b>	<b>48,628</b>
<b>Cash flows from (to) investing activities</b>				
(Acquisition) of intangible assets and property, plant and equipment	(6,963)	(10,361)	(6,113)	(9,630)
Proceeds on sale of property, plant and equipment	573	408	557	284
Acquisition of subsidiaries	(10)	(4)	(10)	(4)
Sale of investments available for sale	-	-	103	-
Repayment of loans granted	2,162	2,311	2,162	2,311
Loans granted	(3,629)	(1,337)	(3,629)	(1,337)
Interest received	297	772	297	688
<b>Net cash flows (to) investing activities</b>	<b>(7,571)</b>	<b>(8,211)</b>	<b>(6,634)</b>	<b>(7,688)</b>
<b>Cash flows from (to) financing activities</b>				
Dividends paid	-	126	-	126
Bonuses paid to board members	(2,462)	-	(2,462)	-
Grants received	684	-	684	-
Loans received	15,538	-	15,538	-
Repayment of loans	(30,662)	(17,442)	(30,662)	(16,556)
Financial lease payments	(5,108)	(3,279)	(4,759)	(2,947)
<b>Net cash flows from (to) financial activities</b>	<b>(22,011)</b>	<b>(20,595)</b>	<b>(21,662)</b>	<b>(19,377)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(17,025)</b>	<b>21,742</b>	<b>(17,089)</b>	<b>21,563</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>30,791</b>	<b>9,049</b>	<b>30,435</b>	<b>8,872</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>13,766</b>	<b>30,791</b>	<b>13,346</b>	<b>30,435</b>

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

The consolidated financial statements and financial statements were approved on 15 March 2011 and signed by:

  
Algirdas Pažemeckas  
General Director

  
Dalia Gecienė  
General financier

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**1. GENERAL INFORMATION**

Žemaitijos Pienas AB (hereinafter the Company) is a joint stock company registered in the Republic of Lithuania. The address of its registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

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 started its operations in 1984. The Company's shares are traded on the Current List of the Vilnius Stock Exchange.

As of 31 December 2010 the share capital of the Company was LTL'000 48,375, which consisted of 48,375,000 ordinary shares with a nominal value of LTL 1 each.

During the extraordinary shareholder's meeting on 8 February 2008, the decision was made to change the par value of the Company's shares from LTL 10 per share to LTL 1 per share and to replace each share held by shareholders by 10 shares accordingly.

As of 31 December 2007 the share capital of the Company was LTL'000 48,375, which consisted of 4,837,500 ordinary shares with a nominal value of LTL 10 each.

All the shares are issued, subscribed and fully paid.

The Company did not hold any own shares as of 31 December 2010 and 31 December 2009.

The major shareholder of Žemaitijos Pienas AB is the general manager of the Company Mr. Algirdas Pažemeckas. As of 31 December 2010 Mr. Algirdas Pažemeckas owned 44.15% of the authorized share capital. As of 31 December 2010 Skandinaviska Ensilida Banken (investment fund) clients had 10.61%, Klaipėdos Pienas AB had 7.45%, Mrs. Pažemeckienė Danutė – 6.25% of shares. There is no information available if there is any other single shareholder with the shareholding of 5% or more.

As of 31 December 2010 the Group consisted of Žemaitijos Pienas AB and the following subsidiaries (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2010	Cost of investment 2009	Net assets as of 31 December 2010	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87.82%	87.82%	10,878	10,878	12,538	Cheese production and selling
Sodžiaus Pienas ŽŪK	Šilalės str. 35, Laukuva, Lithuania	15.12%	100%	-	105	1,305	Milk collection services
Tarpučių Pienas ŽŪK	Klaipėdos str. 3, Šilutė, Lithuania	12.08%	100%	60	50	482	Milk collection services
SIA Muižas piens <sup>44</sup>	Mažeikių str. 4, Telšiai, Lithuania	32%	-	4	4	-	Retail, Wholesale
				<u>10,942</u>	<u>11,037</u>		

According to IFRS a subsidiary is an entity that is controlled by another entity (known as the parent) and control is the power to govern the financial and operating policies of an entity so as to obtain

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

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benefits from its activities, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries fully controlled by the parent even if the Company's owning is less than 50%.

As of 31 December 2010 the number of employees of the Company was 1,383 (as of 31 December 2009 – 1,363). As of 31 December 2010 the number of employees of the Group was 1,550 (as of 31 December 2009 – 1,528).



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**(All amounts in LTL thousands unless otherwise stated)

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## **2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In 2010 the Company and the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2009. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Company's and the Group's accounting policies.

*Standards, amendments and interpretations effective in 2010, but not relevant to the Group's and the Company's accounting policies*

- IFRS 1 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (revised, effective from 1 January 2010);
- IFRS 2 SHARE-BASED PAYMENTS (revised, effective from 1 January 2010);
- IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (revised, effective from 1 January 2010);
- IFRS 8 OPERATING SEGMENTS (revised, effective from 1 January 2010);
- IAS 1 PRESENTATION OF FINANCIAL STATEMENTS (revised, effective from 1 January 2010);
- IAS 7 STATEMENT OF CASH FLOWS (revised, effective from 1 January 2010);
- IAS 17 LEASES (revised, effective from 1 January 2010);
- IAS 36 IMPAIRMENT OF ASSETS (revised, effective from 1 January 2010);
- IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (revised, effective from 1 January 2010).

The Group's and Company's management is of the opinion that adoption of these standards in the future will not significantly impact the financial statements of the Group and the Company.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**(All amounts in LTL thousands unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING POLICIES****Statement of compliance**

The financial statements and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards ("IFRSs") as adopted by the European Union (the "EU").

**Basis of the preparation of the financial statements**

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value.

The financial year of the Company and other companies of the Group coincides with the calendar year.

The financial statements are presented in national Lithuanian currency – Litas (LTL).

The principal accounting policies are set out below:

**Basis of consolidation and business combination**

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities that meet the recognition conditions under IFRS 3 are recognized at their fair values at the acquisition date. The initial accounting for the subsidiaries assets and liabilities are adjusted within twelve months of the acquisition date if additional data is received that allows a more precise determination of fair value of the subsidiaries' assets and liabilities.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the income statement.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets and liabilities recognized.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

The result of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intercompany transactions, balances, income, expenses and unrealized profits (losses) between Group companies are eliminated on consolidation.

**Business combinations involving entities under common control**

Business combinations involving entities under common control are outside the scope of IFRS 3. However, the Group's accounting policy for such business combinations is as follows. For acquisitions that took place starting from April 2004 the Group companies account for business combinations involving entities under common control using the purchase method. The management believes that the purchase method combined with external expert valuations of the fair values used in the deals ensure the best treatment of the situations faced by the Group to present the true and fair view.

**Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or their groups) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Investments in subsidiaries**

Investments in subsidiaries in the Company's stand alone balance sheet are recognized at cost. The dividend income from the investment is recognized only to the extent that the dividends are received from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**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 Group and the Company do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible assets are measured at cost less accumulated amortisation 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.

**Software**

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software and licenses are amortized over a period of 3 years.

Costs incurred in order to restore or maintain the expected future economic benefits expects from the originally assessed standard of performance of existing software systems are recognized as an expense when the restoration or maintenance work is carried out.

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost, less accumulated depreciation and any accumulated impairment losses.

Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

Depreciation of property, plant and equipment, other than construction-in-progress, is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Estimated useful lives of property, plant and equipment are as follows:

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

The Group capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 3000.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

**Investment property**

Investment property of the Group and the Company 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.

**Impairment of property, plant and equipment and intangible assets**

At each balance sheet date, the Group and the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**Inventories**

Inventories are initially measured at cost and are subsequently measured at the lower of cost and net realizable value. The First-In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labor cost, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Financial assets**

Financial assets are recognized on the Company's and the Group's balance sheet when the Company and the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "Loans and receivables". Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are debited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**(All amounts in LTL thousands unless otherwise stated)

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Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less those are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavorable, or a derivative or non-derivative contract that will or may be settled in the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**Fair value of financial instruments**

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where, in the opinion of the management, the carrying amounts of financial assets and financial liabilities recorded at amortized cost differ materially from their carrying value, such fair values are separately disclosed in the notes to the financial statements.

**Grants**

Grants are accounted for on an accrual basis, i.e. grants are credited to income statement in the periods when related expenses, which they are intended to compensate, incur.

Grants related to assets

Grants related to assets include asset acquisition financing and non-monetary grants. Initially such grants are recorded at the fair value of the corresponding assets and subsequently credited to the income statement over the useful lives of related non-current assets.

Grants related to income

Grants related to income are received as a reimbursement for expenses already incurred or as a compensation for unearned revenue, and also all other grants than those related to assets. Grants are recognized when they are received or there is a reasonable assurance that they will be received.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**(All amounts in LTL thousands unless otherwise stated)

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**Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company and the Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company and the Group as lessee

Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for VAT estimated customer returns, rebates and other similar allowances. Revenue is recognized on an accrual basis. Revenues are recognized in the financial statements irrespective of cash inflows, i.e. when they are earned.

Revenue from sales of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company and the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering services

Revenue from rendering services are recognized on performance of the services.

Interest income is recognized on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. Received interest is recorded in the cash flow statement as cash flows from investing activities.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

Dividend income is recognized when the right to shareholders to receive payment is established. Received dividends are recorded in the cash flow statement as cash flows from investing activities.

**Expense recognition**

Expenses are recognized on an accrual basis when incurred.

**Foreign currency**

Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

As of 31 December the applicable rates used for principal currencies were as follows:

<u>year 2010</u>		<u>year 2009</u>	
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
1 USD	= 4.8643 LTL	1 USD	= 4.8679 LTL
1 LVL	= 2.6099 LTL	1 LVL	= 2.4052 LTL

All resulting gains and losses relating to transactions in foreign currencies are recorded in the income statement in the period in which they arise. Gains and losses on translation are credited or charged to the income statement using foreign exchange rates prevailing at the year-end.

**Provisions**

Provisions are recognized when the Company and the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Taxation**

Income tax charge consists of the current and deferred income tax.

Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. From 1 January 2010 the income tax rate is 15% in the Republic of Lithuania.

Deferred income tax

Deferred income tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits of the Group and the Company will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or asset realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current and deferred income tax for the period**

Current and deferred income tax is charged or credited to profit or loss, except when they relate to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

**Segments**

In these financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

**Contingencies**

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

**Subsequent events**

Post balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

**Related parties**

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Group's and the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

**Judgments**

In the process of applying the Group's and the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

*Operating Lease Commitments—Group and Company as Lessor*

The Group and the Company has entered into commercial property leases on its investment property portfolio. The Group and the Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment of non-financial assets*

The Group and the Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Impairment of financial assets*

At each balance sheet date, the Group and the Company reviews the financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

*Deferred Tax Assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

**EXPLANATORY NOTES**
**FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**5. PROPERTY, PLANT AND EQUIPMENT**

Note No 5 – The property, plant and equipment (In the statement of financial position)  
As of 31 December property, plant and equipment of the Group consisted of the following:

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Acquisition cost</b>						
<b>As of 31 December 2008</b>	<b>38.183</b>	<b>123.199</b>	<b>28.969</b>	<b>12.844</b>	<b>6.782</b>	<b>209.976</b>
- acquisition	370	12.546	3.739	227	(3.226)	13.657
- disposals, write-offs	(421)	(9.484)	(324)	(722)	(176)	(11.126)
- adding value	-	2.286	-	-	-	2.286
- transfers between accounts	1.629	1.318	-	2	(2.949)	-
<b>As of 31 December 2009</b>	<b>39.761</b>	<b>129.865</b>	<b>32.384</b>	<b>12.351</b>	<b>431</b>	<b>214.792</b>
- acquisition	89	3.310	1.398	317	2.600	7.713
- disposals, write-offs	(25)	(918)	(486)	(479)	(1.106)	(3.014)
- reversal of impairment	-	-	-	-	-	-
- transfers between accounts	-	1.084	-	-	(1.084)	-
<b>As of 31 December 2010</b>	<b>39.824</b>	<b>133.341</b>	<b>33.297</b>	<b>12.189</b>	<b>841</b>	<b>219.492</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2008</b>	<b>12.314</b>	<b>83.170</b>	<b>15.922</b>	<b>9.840</b>	<b>-</b>	<b>121.246</b>
- depreciation	1.870	10.922	4.118	1.437	-	18.347
- depreciation of written-off and sold assets	(168)	(3.685)	(109)	(687)	-	(4.650)
- transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2009</b>	<b>14.016</b>	<b>90.406</b>	<b>19.931</b>	<b>10.590</b>	<b>-</b>	<b>134.944</b>
- depreciation	1.963	11.751	3.932	1.111	-	18.757
- depreciation of written-off and sold assets	(10)	(613)	(336)	(462)	-	(1.421)
- transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2010</b>	<b>15.969</b>	<b>101.545</b>	<b>23.527</b>	<b>11.239</b>	<b>-</b>	<b>152.280</b>
<b>Accumulated impairment losses</b>						
<b>As of 31 December 2008</b>	<b>233</b>			<b>10</b>	<b>7</b>	<b>250</b>
- impairment losses	-	-	-	-	-	-
- reversal of impairment	1.592	-	-	-	-	1.592
<b>As of 31 December 2009</b>	<b>1.825</b>			<b>10</b>	<b>7</b>	<b>1.842</b>
- impairment losses	5	7	-	27	-	40
- reversal of impairment	(25)	(1)	-	-	-	(26)
<b>As of 31 December 2010</b>	<b>1.805</b>	<b>6</b>	<b>-</b>	<b>37</b>	<b>7</b>	<b>1.855</b>
<b>Net book value:</b>						
<b>As of 31 December 2009</b>	<b>23.920</b>	<b>39.458</b>	<b>12.454</b>	<b>1.751</b>	<b>425</b>	<b>78.007</b>
<b>As of 31 December 2010</b>	<b>22.050</b>	<b>31.790</b>	<b>9.770</b>	<b>912</b>	<b>835</b>	<b>65.357</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

As of 31 December property, plant and equipment of the Company consisted of the following:

The Company	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Acquisition cost</b>						
<b>As of 31 December 2008</b>	<b>21.253</b>	<b>106.682</b>	<b>21.353</b>	<b>10.472</b>	<b>5.448</b>	<b>165.208</b>
- acquisition	367	12.462	3.739	109	(3.748)	12.929
- disposals, write-offs	(1)	(6.314)	(163)	(540)	(176)	(7.194)
- adding value		2.286	-	-	-	2.286
- transfers between accounts	995	284	-	1	(1.279)	-
<b>As of 31 December 2009</b>	<b>22.614</b>	<b>115.400</b>	<b>24.929</b>	<b>10.042</b>	<b>245</b>	<b>173.229</b>
- acquisition	69	2986	1398	270	1531	6.254
- disposals, write-offs	(22)	(855)	(406)	(254)	(1.106)	(2.643)
- adding value	-	-	-	-	-	-
- transfers between accounts	-	71	-	-	(71)	-
<b>As of 31 December 2010</b>	<b>22.661</b>	<b>117.602</b>	<b>25.921</b>	<b>10.025</b>	<b>599</b>	<b>176.807</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2008</b>	<b>5.518</b>	<b>74.509</b>	<b>13.096</b>	<b>7.749</b>	-	<b>100.872</b>
- depreciation	1.081	9.908	3.596	1.296	-	15.881
- depreciation of written-off and sold assets	-	(788)	(39)	(505)	-	(1.332)
- transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2009</b>	<b>6.599</b>	<b>83.629</b>	<b>16.654</b>	<b>8.539</b>	-	<b>115.421</b>
- depreciation	1.139	10.751	3.439	967	-	16.297
- depreciation of written-off and sold assets	(7)	(550)	(269)	(237)	-	(1.063)
- transfers between accounts	-	-	-	-	-	-
<b>As of 31 December 2010</b>	<b>7.732</b>	<b>93.830</b>	<b>19.823</b>	<b>9.269</b>	-	<b>130.655</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2008</b>	-	-	-	-	-	-
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2009</b>	-	-	-	-	-	-
- impairment losses	5	7	-	27	-	40
- reversal of impairment	-	-	-	-	-	-
<b>As of 31 December 2010</b>	<b>5</b>	<b>7</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>40</b>
<b>Net book value</b>						
<b>As of 31 December 2009</b>	<b>16.009</b>	<b>31.771</b>	<b>8.275</b>	<b>1.475</b>	<b>245</b>	<b>57.775</b>
<b>As of 31 December 2010</b>	<b>14.924</b>	<b>23.764</b>	<b>6.098</b>	<b>729</b>	<b>599</b>	<b>46.112</b>

For the year ended 31 December 2010 the depreciation charge of the Group's and the Company's property, plant and equipment amounts to LTL'000 18,757 and LTL'000 16,297 (31 December 2009 – LTL'000 18,347 and LTL'000 15,881 ).

Property, plant and equipment of the Company with a net book value of LTL'000 15,060 as of 31 December 2010 (31 December 2009 – LTL'000 18,513) was pledged to banks as a collateral for the loans received by the Company. As of 31 December 2010 the subsidiary Šilutės Rambynas ABF has also pledged the property, plant and equipment with the net book value of LTL'000 39 for the loans received by the Company (31 December 2009 – LTL'000 44 ) (Note 14).

As of 31 December 2010 part of property, plant and equipment of the Group and the Company with the acquisition cost of LTL'000 76,834 and LTL'000 70,313 respectively, was fully depreciated (31 December 2009 – LTL'000 71,333 and LTL'000 64,996) but was still in active use.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

The investments made by the Group and the Company during the year 2009 for the acquisition of property, plant and equipment and intangible assets amounted to LTL'000 7,713 and LTL'000 6,254 (2009– LTL'000 13,657 and LTL'000 12,929 ). As all assets of the Group and the Company are in Lithuania, all acquisitions are related with the geographical segment of Lithuania.

**6. INVESTMENT PROPERTY**

Note No 6 – Investment property (In the statement of financial position)

As of 31 December investment property consisted of the following:

	<u>The Group</u>	<u>The Company</u>
<b>Acquisition cost</b>		
As of 31 December 2008		9,435
- acquisition		
- transfers from long-term assets		
As of 31 December 2009	-	9,435
- acquisition	-	-
- transfers from long-term assets	-	-
As of 31 December 2010	-	9,435
<b>Accumulated depreciation</b>		
As of 31 December 2008		4,074
- depreciation		479
- transfers from long-term assets		
As of 31 December 2009	-	4,553
- depreciation	-	479
- transfers from long-term assets	-	-
As of 31 December 2010	-	5,032
<b>Net book value:</b>		
As of 31 December 2009	-	4,882
As of 31 December 2010	-	4,403

The fair value of investment property approximates its book value.

The Company's depreciation of the investment property for the year 2010 amounted to LTL'000 479 (2009 – LTL'000 479).

The Company's investment property in 2010 and 2009 represents rented property to Šilutės Rambynas ABF.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

**7. LOANS GRANTED**

Note No 7 – Loans granted (In the statement of financial position)

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

As of 31 December loans granted consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Loans granted	5,436	2,360	5,436	2,359
Less: current portion of loans granted	(1,677)	(1,385)	(1,677)	(1,385)
	<b>3,760</b>	<b>973</b>	<b>3,760</b>	<b>973</b>

All granted loans are in LTL. Loan's payback period is 1 – 9 years.

**8. INVENTORIES**

Note No 8 – Inventories (In the statement of financial position)

As of 31 December inventories consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Raw materials	12.384	11.346	10.336	9.719
Finished goods and work in process	51.513	29.367	44.906	26.283
Goods for resale	886	1.490	886	1.490
	<b>64.783</b>	<b>42.203</b>	<b>56.129</b>	<b>37.492</b>
Less: write off to net realizable value	(2.703)	(4.331)	(2.703)	(4.274)
<b>Total:</b>	<b>62.081</b>	<b>37.871</b>	<b>53.426</b>	<b>33.218</b>

**9. TRADE ACCOUNTS RECEIVABLE**

Note No 9 – Trade Accounts receivable (In the statement of financial position)

As of 31 December trade accounts receivable consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Trade accounts receivable	28.057	24.694	27.925	23.476
Receivable from related parties	8.313	4.637	13.554	7.282
	<b>36.370</b>	<b>29.331</b>	<b>41.479</b>	<b>30.758</b>
Less: impairment loss	(105)	(2)	(105)	(2)
<b>Total:</b>	<b>36.265</b>	<b>29.329</b>	<b>41.374</b>	<b>30.756</b>

Changes in impairment loss for doubtful trade accounts receivables for 2010 and 2009 are included into operating expenses in the income statement. The change in impairment loss for trade accounts receivable increased operating expenses of the year 2010.

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(All amounts in LTL thousands unless otherwise stated)

Trade receivables are non-interest bearing and are generally on 30 – 90 days terms.

Movements in the allowance for impairment of trade accounts receivable were as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
The statement of financial position as of 31 December as per 01 01 2010	2	65	2	41
Impairment loss	103	(63)	103	(39)
The statement of financial position as of 31 December as per 01 01 2010	<b>105</b>	<b>2</b>	<b>105</b>	<b>2</b>

The ageing analysis of trade accounts receivable as of 31 December 2010 and 2009 is as follows:

The Group	Trade accounts receivable neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 1 year	
2009	22,152	2,471	44	-	23	2	24,694
2010	27,336	612	-	4	-	-	27,952

The Company	Trade accounts receivable neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 1 year	
2009	21,002	2,452	22	-	-	2	23,476
2010	27,232	588	-	-	-	-	27,820

**10. OTHER ACCOUNTS RECEIVABLE**

Note No 10 – Other accounts receivable (In the statement of financial position)

As of 31 December other accounts receivables consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Income tax paid in advance	1.661	-	1.661	-
Current portion of long-term loans granted	1.677		1.677	
Overpaid personal income Tax	501		501	
VAT receivable	2.529	1.178	2.520	1.177
Other receivables	174	1.852	91	1.778
<b>Total:</b>	<b>6.542</b>	<b>3.030</b>	<b>6.451</b>	<b>2.955</b>

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**11. CASH AND CASH EQUIVALENTS**

Note No 11 – Cash and cash equivalents (In the statement of financial position)

As of 31 December cash and cash equivalents consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Cash at bank	8.603	24.463	8.186	24.128
Cash on hand	163	167	159	145
<b>Total:</b>	<b>8.766</b>	<b>24.629</b>	<b>8.345</b>	<b>24.273</b>
Short term deposits	5.000	6.161	5.000	6.161
<b>Total:</b>	<b>5.000</b>	<b>6.161</b>	<b>5.000</b>	<b>6.161</b>

For the year ended 31 December 2010 the term deposits of the Group's and the Company's was LTL'000 5,000. It reflected in the cash flow statement.

**12. SHAREHOLDERS' EQUITY**

As of 31 December 2010 the share capital consisted of 48,375,000 ordinary shares with the par value of LTL 1 each. As of 31 December 2007 the share capital consisted of 4,837,500 ordinary shares with the par value of LTL 10 each. As of 31 December 2010 and 2009 all shares were fully paid.

Note No 12 – Shareholders' equity (In the statement of financial position)

As of 31 December 2009 the main shareholders of the Company were:

	<b>2010 m.</b>		<b>2009 m.</b>	
	<b>Number of shares</b>	<b>Ownership, %</b>	<b>Number of shares</b>	<b>Ownership, %</b>
Pažemeckas Algirdas SKANDINAVISKA ENSKILDA BANKEN CLIENTS	21.355.870	44,15%	21.355.870	44,15%
kodas 50203290810, SERGELS TORG 2 10640 STOCKHOLM, SWEDEN	5.131.830	10,61%	3.841.690	7,94%
AB „Klaipėdos pienas“ Company's code 240026930, Šilutės pl. 33, 91107 Klaipėda	3.601.844	7,45%	3.601.844	7,45%
Pažemeckienė Danutė	3.025.850	6,25%	-	0,00%
Šunokienė Ona	-	0,00%	2.614.430	5,40%
Other small shareholders	15.259.606	31,54%	16.961.166	35,06%
<b>Total:</b>	<b>48.375.000</b>	<b>100,00%</b>	<b>48.375.000</b>	<b>100,00%</b>

Legal reserve

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. As of 31 December 2009 the legal reserve of the Company was fully formed. The legal reserve cannot be distributed to the shareholders.

Other reserves

Other reserves are formed based on a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or planned to use should be restored to retained earnings and redistributed.

**13. GRANTS RECEIVED**

Note No 13 – Grants received (In the statement of financial position)

The movement of grants for the years ended 31 December consisted of the following:

	<u>The Group</u>	<u>The Company</u>
<b>Grants received</b>		
As of 31 December 2008 (balance)	16.178	11.158
- received	-	-
- acquisition of subsidiary	-	-
As of 31 December 2009 (balance)	16.178	11.158
- received	684	684
- acquisition of subsidiary	-	-
As of 31 December 2010 (balance)	16.862	11.842
<b>Accumulated amortisation</b>		
As of 31 December 2008 (balance)	12.052	9.211
- amortization	957	712
- acquisition of subsidiary	-	-
As of 31 December 2009 (balance)	13.009	9.923
- amortization	1.174	916
- acquisition of subsidiary	-	-
As of 31 December 2010 (balance)	14.183	10.839
<b>Net book value</b>		
As of 31 December 2009	3.169	1.235
As of 31 December 2010	2.679	1.002

On 9 March 2006 the Company signed a subsidy agreement with the NPA in relation to the Company's Manufacturing Lines Modernisation Project (hereinafter in this and successive paragraphs the Project). The financing is provided from the European Commission Aid and National Budget in accordance with the financing programme Agriculture and Fishery Manufacturing and Marketing Modernisation. The Company has been provided with total financing of LTL'000 3,435 (or 44.72% of the total planned Project value). LTL'000 2,533 (or 73.74%) of the support will be provided by the EU Structural Funds and the remaining LTL'000 902 (or 26.26%) – by the National Budget for the implementation of the Project. As of 31 December 2008 the net book value of the grant was



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(All amounts in LTL thousands unless otherwise stated)

LTL'000 1,947 (31 December 2007 – LTL'000 2,658). December 2009 the net book value of the grant was LTL'000 1,235.

On 5 July 2005 Šilutės Rambynas ABF signed a financing agreement with the public institution Lithuanian Environmental Investment Fund for a grant of LTL'000 300. The grant is intended for the reconstruction of the boiler-house of Šilutės Rambynas ABF, whereupon the type of fuel used will be changed from fuel oil to liquid gas. The amount of the grant can not exceed 70% of the total value of the reconstruction project. The reconstruction of the boiler-house was finished in December 2005, therefore starting from 1 January 2006 the grant amount started to be amortized within 8 years of useful life reducing the depreciation expenses of the boiler-house accounted for under cost of sales caption. As of 31 December 2008 the balance of the grant was LTL'000 187 (31 December 2007 – LTL'000 225).

On 24 January 2006 ABF Šilutės Rambynas signed a financing agreement with the National Paying Agency under the Ministry of Agriculture for a grant of LTL'000 3,395. The grant is intended for the project “Šilutės Rambynas ABF Modernisation of Milk Processing Production” including the acquisition of new vehicles and equipment. Šilutės Rambynas ABF purchased new equipment and vehicles in June and July 2006, therefore starting from the next month after acquisition the amortization of the subsidy within the 5-year useful live period was started reducing the depreciation expenses of the equipment and vehicles accounted for under cost of sales. The subsidy to Šilutės Rambynas ABF was paid out on 31 January 2007. The amortisation of the grant in the amount of LTL'000 621 reduced the 2007 cost of sales. As of 31 December 2008, the balance of the grant was LTL'000 1,992 (31 December 2007 – LTL'000 2,223).

December 2010, the net book value of the grant and the balance of the grant was LTL'000 1,676.

The amortisation of the financing was offset against depreciation and accounted for under depreciation and amortisation caption in cost of sales in the statement of income. The granted financing is amortized in equal parts over the depreciation period of the assets acquired using the financing received.

**14. BORROWINGS**

Note No 14 – Borrowings (In the statement of financial position)

As of 31 December the Group's borrowing consisted of the following:

The Group	Contract date	Maturity date	Currency	Balance	
				2010	2009
AB DnB NORD bankas	2004 05	2012 06	EUR	6.750	20.717
AB DnB NORD bankas	2006 06	2013 04	EUR	3.758	4.915
<b>Total:</b>				<b>10.508</b>	<b>25.632</b>
Less: short-term borrowings					
Less: current portion of long-term borrowing				(1.670)	(1.158)
<b>Total long-term borrowings</b>				<b>8.838</b>	<b>24.474</b>



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**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

As of 31 December the Company's borrowings consisted of the following:

The Company	Contract date	Maturity date	Currency	Balance	
				2010	2009
AB DnB NORD bankas	2004 05	2012 06	EUR	6.750	20.717
AB DnB NORD bankas	2006 06	2013 04	EUR	3.758	4.915
<b>Total:</b>				<b>10.508</b>	<b>25.632</b>
Less: short-term borrowings					
Less: current portion of long-term borrowing				(1.670)	(1.158)
<b>Total long-term borrowings</b>				<b>8.838</b>	<b>24.474</b>

Terms of repayment of non-current borrowings to the Group and the Company were as follows:

	The Group		The Company	
	2010	2009	2010	2009
Within one year	1.670	1.158	1.670	1.158
In the second year	8.420	1.670	8.420	1.670
In the third year	418	22.387	418	22.387
In the fourth and thereafter	-	417	-	417
<b>Total:</b>	<b>10.508</b>	<b>25.632</b>	<b>10.508</b>	<b>25.632</b>

Parts of loans of the Group and the Company at the end of the year in national and foreign currencies were as follows:

	The Group		The Company	
	2010	2009	2010	2009
EUR	10,508	25,632	10,508	25,632
LTL	-	-	-	-
<b>Total:</b>	<b>10,508</b>	<b>25,632</b>	<b>10,508</b>	<b>25,632</b>

**15. OBLIGATIONS UNDER FINANCE LEASE**

As of 31 December the Group's and the Company's obligations under finance lease consisted of the following:

The Group	2010		2009	
	Minimum lease payments	Present value of minimum lease	Minimum lease	Present value of minimum

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**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

		payments	payments	lease payments
Within one year	4.861	4.673	5.356	5.107
In the second to fifth years inclusive	6.710	6.575	11.534	11.245
<b>Minimum lease payments</b>	<b>11.570</b>	<b>11.249</b>	<b>16.890</b>	<b>16.356</b>
Less: future finance charges	(323)		(534)	
<b>Present value of minimum lease payments</b>	<b>11.248</b>		<b>16.356</b>	

**EXPLANATORY NOTES**
**FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

The Company	2010		2009	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	4.490	4.317	5.007	4.757
In the second to fifth years inclusive	6.093	5.968	10.571	10.287
<b>Minimum lease payments</b>	<b>10.583</b>	<b>10.285</b>	<b>15.578</b>	<b>15.044</b>
Less: future finance charges	(298)		(534)	
<b>Present value of minimum lease payments</b>	<b>10.285</b>		<b>15.044</b>	

As of 31 December 2010 and 2009 the Group's and the Company's finance lease agreements were in EUR.

**16. OPERATING LEASE**

Future lease payments according to the signed operating lease contracts are as follows:

	The Group		The Company	
	2010	2009	2010	2009
Within one year	1,818	1,647	1,818	1,647
In the second to fifth years	1,877	1,637	1,877	1,637
After five years	-	283	-	283
<b>Total:</b>	<b>3,695</b>	<b>3,567</b>	<b>3,695</b>	<b>3,567</b>

The currency of the payment of operating lease is Litas (LTL).

**17. PAYABLES**

Terms and conditions of financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Other payables are non-interest bearing and have an average term of one month.
- Interest payable is normally settled monthly throughout the financial year.
- For terms and conditions relating to related parties refer to Note 28.

	The Group		The Company	
	2010	2009	2010	2009
Payables to suppliers	24.771	17.996	23.567	16.150
Payables to related parties	-	260	171	1.554
Prepayments	881	-	881	-
<b>Total:</b>	<b>25.652</b>	<b>18.256</b>	<b>24.619</b>	<b>17.704</b>

**18. OTHER LIABILITIES**

Note No 18 – Other liabilities (In the statement of financial position)

As of 31 December other liabilities consisted of the following:

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Accrued expenses	6.708	4.718	6.358	4.718
Wages and salaries payable	2.919	1.902	2.172	1.721
Social security payable	1.340	1.066	1.220	927
Taxes payable, other than income tax	157	344	156	98
Advances received	-	568	-	568
Other current liabilities	1.455	417	1.309	9
<b>Total:</b>	<b>12.578</b>	<b>9.015</b>	<b>11.215</b>	<b>8.041</b>

**19. INFORMATION ON SEGMENTS**

Note No 19 – Sales (In the statement of comprehensive income)

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading (prime segment). Sales by geographical segments (secondary segments) are presented below:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Sales:</b>				
Lithuania	248.931	210.457	247.008	209.249
Other Baltic States and CIS members	112.876	74.846	110.771	74.419
Other Europe countries	63.666	73.041	61.737	73.041
USA	126	2.295	126	2.295
Other	8.093	12.186	8.093	12.186
<b>Total:</b>	<b>433.692</b>	<b>372.825</b>	<b>427.735</b>	<b>371.190</b>

**20. OPERATING EXPENSES**

Note No 20 – Operating expenses (In the statement of comprehensive income)

As of 31 December operating expenses consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Wages, salaries and social security*	27.193	25.988	26.813	25.439
Services	8.719	3.301	8.368	4.808
Marketing	16.580	6.553	16.583	6.510
Fuel and spare parts	4.584	3.953	4.523	3.882
Depreciation and amortisation	2.739	3.742	2.712	3.722
Change in write off of inventories to net realizable value	(1.572)	2.069	(1.572)	2.069
Materials	1.538	1.282	1.510	1.249
Taxes, other than income tax	755	906	692	780
Other expenses	4.608	4.378	4.211	4.066
<b>Total:</b>	<b>65.144</b>	<b>52.172</b>	<b>63.840</b>	<b>52.525</b>



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

For the year ended 31 December 2010 the Group's and the Company's wages, salaries and social operating expenses amounted to LTL'000 27,193 and LTL'000 26,813, respectively.

**21. OTHER OPERATING INCOME AND EXPENSES**

Note No 21 – Other operating income and expenses (In the statement of comprehensive income)

As of 31 December other operating income and expenses consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>Other operating income</i>				
Gain on sales of property, plant and equipment and goods for resale sales income	3.382	2.544	3.337	2.432
Rental income	186	1.301	1.080	1.182
Income of the canteen	675	314	675	314
Other	415	-	373	668
	<b>4.657</b>	<b>4.159</b>	<b>5.465</b>	<b>4.597</b>
			-	
<i>Other operating income</i>				
Cost of goods for resale sold	(4.338)	(2.275)	(3.120)	(2.275)
Rental income	(1.140)	(1.076)	(986)	(973)
Wages, salaries and social security	-	(3)	-	(3)
Other	(710)	(2.885)	(710)	(497)
	<b>(6.189)</b>	<b>(6.239)</b>	<b>(4.816)</b>	<b>(3.750)</b>
<b>Total:</b>	<b>(1.532)</b>	<b>2.080</b>	<b>649</b>	<b>847</b>

**22. OTHER FINANCIAL INCOME AND EXPENSES**

Note No 22 – Other financial income and expenses (In the statement of comprehensive income)

As of 31 December other financial income and expenses consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>Income from financial activity</i>				
Interest income	606	772	606	688
Foreign currency exchange (profit)	246	40	245	-
Other financial incomes	123	453	117	401
	<b>975</b>	<b>1.265</b>	<b>968</b>	<b>1.089</b>
<i>Expenses from financial activity</i>				
Foreign currency exchange (loss)	(273)	(609)	(252)	(486)
Interest	(486)	(1.903)	(466)	(1.852)
Other financial expenses	(2)	(8)	-	-
	<b>(761)</b>	<b>(2.520)</b>	<b>(717)</b>	<b>(2.338)</b>
<b>Total:</b>	<b>215</b>	<b>(1.255)</b>	<b>251</b>	<b>(1.249)</b>

**23. INCOME TAX EXPENSE (BENEFIT)**

Note No 23 – Income tax expense (In the statement of comprehensive income)

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

For the years ended 31 December 2010 and 31 December 2009 income tax consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
(Loss) profit before tax	23.095	14.297	22.114	15.017
Tax at the statutory income taxes rate	3.448	3.342	3.448	3.342
Tax effect of non-taxible differences	84	(474)	84	(808)
Change in deferred tax asset valuation allowance	241	-	-	-
Change in deferred tax due to change in income tax rate (2008 – 15%, 2009 – 20%)	-	160	-	150
<b>Income tax expenses (benefit) charged to the income statement</b>	<b>3.773</b>	<b>3.028</b>	<b>3.532</b>	<b>2.684</b>
Prior year income tax correction	-	-	-	-
Current period income tax	-	-	-	-
Change in deferred income tax	(3.773)	(3.028)	(3.532)	(2.684)
<b>Income tax expenses (benefit) charged to the income statement</b>	<b>3.773</b>	<b>3.028</b>	<b>3.532</b>	<b>2.684</b>
	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Deferred income tax asset</b>				
Tax loss carry forward	-	-	-	-
Inventories	414	664	405	641
Accrued vacation reserve	1.121	933	1.102	919
Other accrued expenses	72	106	38	69
<b>Total deferred income tax asset</b>	<b>1.606</b>	<b>1.703</b>	<b>1.545</b>	<b>1.629</b>
<b>Less: valuation allowance</b>				
<b>Deferred income tax liabilities</b>				
Difference in property, plant and equipment depreciation rates	(784)	(542)	-	-
Fair value adjustment for property, plant and equipment at acquisition of a subsidiary	-	-	-	-
<b>Total deferred income tax liabilities</b>	<b>(784)</b>	<b>(542)</b>	<b>-</b>	<b>-</b>
<b>Deferred income tax asset, net</b>	<b>822</b>	<b>1.161</b>	<b>1.545</b>	<b>1.629</b>

**24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES**

At 2010.05.14 subsidiary ŽŪK „Sodžiaus pienas“ has been liquidated. At March 2010 the Company purchased extra shares of ŽŪK „Tarpučių pienas“ in amount of 10.000 LTL.

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

**25. EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year.

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net (loss) profit attributable to the shareholders	19,225	11,196	18,582	12,333
Weighted average number of shares (in thousands)	48,375	48,375	48,375	48,375
<b>Basic earnings (loss) per share (LTL)</b>	<b>0,40</b>	<b>0,23</b>	<b>0,38</b>	<b>0,25</b>

Diluted earnings per share equal to basic earnings per share as there were no potential shares issued as of 31 December 2010 and 2009.

**26. DIVIDENDS PER SHARE**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Dividends paid	-	-	-	-
Number of shares (thousands)	48,375	48,375	48,375	48,375
<b>Dividends per share (LTL)</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>

**Commitments and contingencies**

As of 31 December 2010 and 2009 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

At 31 December 2010 and 2009 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.

**27. FINANCIAL RISK MANAGEMENT**Credit risk

As of 31 December the maximum exposures of the Company and the Group to credit risk consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	8.766	24.629	8.345	24.273
Loans granted	3.760	973	3.760	973
Trade accounts receivable	36.265	29.329	41.374	30.756
Other accounts receivable	6.542	3.030	6.450	2.955
Term deposits	5.000	6.161	5.000	6.161
<b>Total financial assets</b>	<b>60.332</b>	<b>64.123</b>	<b>64.929</b>	<b>65.118</b>

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

The Group and the Company has no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. Customers' risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of receivables (Note 9), net of impairment losses recognized at the balance sheet date.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties. The counterparties are splitted into group, other related parties and non related parties and starting from the end of 2007 newly concluded trading agreements include paragraph about credit limits assigned according to the volume and amount of sales. Some customers are also required to make prepayments.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks with high credit ratings assigned by international credit-rating agencies.

**Liquidity risk**

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

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities as of 31 December 2010 and 2009 based on contractual undiscounted payments.

	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>The Group</b>						
Interest bearing loans and borrowings	-	-	1.158	24.474	-	25.632
Interest bearing finance lease liabilities	-	1.351	3.756	11.250	-	16.356
Trade payables	-	18.016	-	-	-	18.016
Commitments to related parties	-	4.278	-	-	-	4.278
<b>Balance as of 31 December 2009</b>	-	<b>23.645</b>	<b>4.914</b>	<b>35.724</b>	-	<b>64.282</b>
Interest bearing loans and borrowings	-	418	1.252	8.838	-	10.508
Interest bearing finance lease liabilities	-	1.167	3.505	6.575	-	11.248
Trade payables	-	24.770	-	-	-	24.770
Commitments to related parties	-	-	-	-	-	-
<b>Balance as of 31 December 2010</b>	-	<b>26.355</b>	<b>4.757</b>	<b>15.413</b>	-	<b>46.525</b>
<b>Changes throught 2010</b>	-	<b>2.710</b>	<b>(156)</b>	<b>(20.311)</b>	-	<b>(17.757)</b>



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(All amounts in LTL thousands unless otherwise stated)

The Company	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	-	1.158	24.474	-	25.632
Interest bearing finance lease liabilities	-	1.264	3.493	10.287	-	15.044
Trade payables		16.150				16.150
Commitments to related parties		1.554				1.554
<b>Balance as of 31 December 2009</b>	<b>-</b>	<b>18.968</b>	<b>4.651</b>	<b>34.761</b>	<b>-</b>	<b>58.380</b>
Interest bearing loans and borrowings		418	1.252	8.838		10.508
Interest bearing finance lease liabilities		1.079	3.238	5.968		10.285
Trade payables		23.567				23.567
Commitments to related parties		171				171
<b>Balance as of 31 December 2008</b>	<b>-</b>	<b>25.235</b>	<b>4.490</b>	<b>14.806</b>	<b>-</b>	<b>44.531</b>
<b>Changes through 2010</b>		<b>(6.267)</b>	<b>161</b>	<b>19.955</b>	<b>-</b>	<b>13.849</b>

Foreign exchange risk

Major currency risks of the Group occur due to the fact that the Group borrows foreign currency denominated funds as well as is involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged.

As of 31 December 2010 monetary assets and liabilities stated in various currencies were as follows:

	The Group		The Company	
	2010		2010	
	Assets	Liabilities	Assets	Liabilities
LTL	47.564	41.084	48.720	38.028
EUR	13.396	23.956	13.208	22.868
USD	41	-	41	-
LVL	3.576	430	3.576	430
Other	-	0	-	-
<b>Total:</b>	<b>64.576</b>	<b>65.470</b>	<b>65.545</b>	<b>61.326</b>

As of 31 December 2009 monetary assets and liabilities stated in various currencies were as follows:

	The Group		The Company	
	2009		2009	
	Assets	Liabilities	Assets	Liabilities
LTL	67.476	60.940	46.803	41.563
EUR	14.000	28.039	13.753	26.711
USD	951	-	951	-
LVL	4.296	12	4.296	12
Other	2	2	2	2
<b>Total:</b>	<b>86.725</b>	<b>88.993</b>	<b>65.805</b>	<b>68.288</b>

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and EUR. Therefore, the sensitivity analysis to the foreign currency fluctuations was not disclosed due to immateriality of the balances and transactions in currencies other than LTL and EUR.

**Fair value of financial assets and liabilities**

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term loans.

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, discounted cash flow models and option pricing models as appropriate.

A comparison between carrying amount and fair value of all of the Group and the Company financial instruments presented in financial statements by it's categories is set out below:

<b>The Group</b>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Financial assets</b>				
Cash	8.554	24.629	8.554	24.629
Term deposits	5.000	6.161	5.000	6.161
Investments available for sale	-	-	-	-
Loans granted	3.760	973	3.760	973
	<b>17.314</b>	<b>31.763</b>	<b>17.314</b>	<b>31.763</b>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:	-	-	-	-
Obligations under finance lease and hired purchase contracts	9.596	10.285	9.322	15.044
Floating interest rate borrowings	10.508	25.632	10.508	25.632
Fixed interest rate borrowings	-	-	-	-
	<b>20.104</b>	<b>35.917</b>	<b>19.830</b>	<b>40.676</b>
<b>Total:</b>	<b>37.418</b>	<b>67.680</b>	<b>37.145</b>	<b>72.439</b>

<b>The Company</b>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Financial assets</b>				
Cash	8.345	24.273	8.345	24.273
Term deposits	5.000	6.161	5.000	6.161
Investments available for sale	-	-	-	-
Loans granted	3.760	973	3.760	973
	<b>17.105</b>	<b>31.407</b>	<b>17.105</b>	<b>31.407</b>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	10.583	10.285	10.285	15.044
Floating interest rate borrowings	10.508	25.632	10.508	25.632
Fixed interest rate borrowings	-	-	-	-
	<b>21.091</b>	<b>35.917</b>	<b>20.793</b>	<b>40.676</b>
<b>Total:</b>	<b>38.196</b>	<b>67.324</b>	<b>37.898</b>	<b>72.083</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousands unless otherwise stated)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- a) The carrying amount of current trade accounts receivable, current accounts payable and short-term loans approximates fair value.
- b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans with variable and fixed interest rates approximates their carrying amounts.

**Capital management**

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and 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 Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes of capital management during the years ended 31 December 2010 and 2009.

The Company is obliged to keep its equity not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements for the Group and the Company.

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as sustainable performance indicators.

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Non-current liabilities (including deferred taxes and grants)	20.754	41.333	17.687	37.863
Current liabilities	47.394	34.580	44.641	32.702
<b>Total liabilities</b>	<b>68.148</b>	<b>75.913</b>	<b>62.328</b>	<b>70.565</b>
<b>Equity attributable to equity holders of the parent</b>	<b>120.055</b>	<b>103.678</b>	<b>119.667</b>	<b>103.548</b>
<b>Debt* to equity ratio</b>	<b>57%</b>	<b>73%</b>	<b>52%</b>	<b>68%</b>

\* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities.

Moreover the Company has externally imposed capital requirements from the banks. It is required that equity/assets ratio is not less than 30%. The management monitors that the Company is in compliance

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with the requirement. No other capital management tools are used. No breaches of required ratio occurred during the year.

**28. RELATED PARTY TRANSACTIONS**

The parties are considered related when one party has the power to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company are as follows:

- Žemaitijos Pieno Investicija AB (company related to the shareholder);
- Šilutės Rambynas ABF (company related to the shareholder)) (2008 – subsidiary);
- Baltijos Mineralinių Vandenių Kompanija UAB (company related to the shareholder));
- Klaipėdos Pienas AB (company related to the shareholder));
- Žemaitijos Prekyba UAB (company related to the shareholder));
- Gimtinės Pienas UAB (company related to the shareholder)).

Payables to related parties are normally settled within 30 day terms.

The related party transactions and the balances at the end of the year were as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>1) Sales</b>				
<b>Sales of goods</b>				
<i>To the Group</i>				
Sodžiaus pienas ŽŪK	-	-	-	-
Tarpučių pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	-	1.835	42.305
	<u>-</u>	<u>-</u>	<u>1.835</u>	<u>42.305</u>
<i>To Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	606	-	606	-
Klaipėdos pienas AB	707	4.214	707	4.214
Žemaitijos pieno investicija AB	-	-	-	-
Gimtinės pienas UAB	-	-	-	-
Žemaitijos prekyba UAB	25.506	25.093	25.506	25.093
Muizas piens SIA	8.350	-	8.350	-
	<u>35.169</u>	<u>29.307</u>	<u>35.169</u>	<u>29.307</u>
<b>Sales of inventory and services</b>				
<i>To the Group</i>				
Sodžiaus pienas ŽŪK	-	-	-	1
Tarpučių pienas ŽŪK	-	-	21	14
Šilutės Rambynas ABF	-	-	1.365	2.645
	<u>-</u>	<u>-</u>	<u>1.387</u>	<u>2.660</u>
<i>To Related parties</i>				
Baltijos mineralinių vandenių kompanija UAB	2.127	-	2.127	-
Klaipėdos pienas AB	1.858	2.204	1.872	2.204
Žemaitijos pieno investicija AB	356	153	361	153
Gimtinės pienas UAB	-	30	-	30
Žemaitijos prekyba UAB	498	838	485	827
Muizas piens SIA	31	-	31	-
	<u>4.870</u>	<u>3.225</u>	<u>4.876</u>	<u>3.214</u>
<b>Total Sales:</b>	<u><b>40.038</b></u>	<u><b>32.532</b></u>	<u><b>43.266</b></u>	<u><b>77.486</b></u>



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(All amounts in LTL thousands unless otherwise stated)

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>2) Purchases</b>				
<i>From the Group</i>				
Sodžiaus pienas ŽŪK	-	-	-	139
Tarpučių pienas ŽŪK	-	-	-	6
Šilutės Rambynas ABF	-	-	58,708	66
	-	-	58,708	211
<i>From Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	274	-	274	-
Gimtinės pienas UAB	-	-	-	-
Žemaitijos prekyba UAB	178	450	174	414
Klaipėdos pienas AB	529	1.183	1.178	1.158
Žemaitijos pieno investicija AB	1,029	1.066	1.029	1.056
SIA "Muizas piens"	1,526	-	1.121	-
	3,536	2,699	3,777	2,628
<b>Total Purchases:</b>	<b>3,536</b>	<b>2,699</b>	<b>62,485</b>	<b>2,839</b>
	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>3) Accounts receivable</b>				
<i>From Group</i>				
Sodžiaus pienas ŽŪK	-	-	-	-
Tarpučių pienas ŽŪK	-	-	-	10
Šilutės Rambynas ABF	-	-	5,609	2,720
	-	-	5,609	2,730
<i>From Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB			135	-
Gimtinės pienas UAB	135	-	-	-
Žemaitijos prekyba UAB	-	3.852	4,915	3.852
Klaipėdos pienas AB	4,922	700	90	700
Žemaitijos pieno investicija AB	450	85	1,440	-
Muizas piens SIA	1,440	-	1,365	-
	1,365	4,637	7,945	4,552
	8,313	4,637	13,554	7,282
	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>4) Balances of payables</b>				
<i>To Group</i>				
Sodžiaus pienas ŽŪK	-	-	-	1,159
Tarpučių pienas ŽŪK	-	-	171	195
Šilutės Rambynas ABF	-	-	-	-
	-	-	171	1,354
<i>To Related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	-	-	-
Gimtinės pienas UAB	-	-	-	-

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(All amounts in LTL thousands unless otherwise stated)

Žemaitijos prekyba UAB	-	4	-	-
Klaipėdos pienas AB	-	2	-	-
Žemaitijos pieno investicija AB	-	254	-	200
Muizas piens SIA	-	-	-	-
	-	260	-	200
	-	260	171	1,554

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2010 and 2009, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Group performs a significant part of transactions with related parties (Žemaitijos Pieno Investicija AB group companies) and both profit and sales of the Group are significantly influenced by transactions with AB Žemaitijos Pieno Investicija group. This includes the following: rent of fixed assets, sales of raw materials, full buy up of cheeses from Šilutės Rambynas ABF, buy up of ice - cream from Klaipėdos Pienas AB, distribution services' sales to Baltijos Mineralinių Vandenių Kompanija UAB and product sales to Žemaitijos Prekyba UAB.

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**ŽEMAITIJOS PIENAS AB**

Independent Auditor's Report,  
Consolidated Annual Report,  
Financial Reporting Package,  
and Consolidated Financial Reporting Package  
for the year ended 31 December 2010

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## INDEPENDENT AUDITOR'S REPORT

To JSC "Žemaitijos pienas" group shareholders

### Report on the Financial Statements

We have audited the accompanying set of annual financial statements of JSC "Žemaitijos pienas" (hereinafter "Company") and of JSC "Žemaitijos pienas" group (hereinafter "Group"), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, cash flow statement, statement of changes in equity for the year then ended and related notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Republic of Lithuania law on accounting and financial reporting, International Financial Reporting Standards as adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC "Žemaitijos pienas" and Group as at December 31 of 2010, and the financial performance and cash flows for the year then ended in accordance with the Republic of Lithuania law on accounting and financial reporting, and with International Financial Reporting Standards as adopted by European Union.

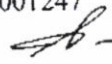
### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report of JSC "Žemaitijos pienas" group for the year ended at December 31, 2010 and have not noted any material inconsistencies between the financial information included in it and the financial statements of JSC "Žemaitijos pienas" group for the year ended at December 31, 2010.

Auditor Olga Kivel  
15 March 2011  
Subačiaus str. 15/2-53  
LT 01126 Vilnius  
Auditor's licence No. 000476



UAB „Nepriklausomas auditas“  
Audit company's licence No. 001247  
Auditor/Director Ana Sirienė  
Auditor's licence No. 000251



**I. I. GENERAL INFORMATION ABOUT THE ISSUER****1. Reporting Period of the Compiled Report**

Consolidated annual report is drawn up for the financial year 2010.

**2. Issuer and its Contact Information**

Name	Joint Stock Company “Žemaitijos Pienas”
Legal and organisational form	Joint Stock Company
Registration	Joint Stock Company is registered on 23 <sup>rd</sup> of June, 1993
Registration number	180240752
VAT number	LT802407515
Authorised capital	48 375 000 Lt is divided to 48 375 000 registered shares of common stock of nominal amount – 1Lt
Address	Sedos str. 35, LT-87101 Telšiai
Telephone	+370-444-22201
Fax	+370-444-74897
Electronic mail	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
Internet website	<a href="http://www.zpienas.lt">www.zpienas.lt</a>

**3. The nature of main activities of the issuer and of daughter enterprises**

As main activity of the JSC “Žemaitijos pienas” is the mintage, production and selling within the pale of Lithuanian and international markets the following production: enzymatic cheese and cheese products, prepacked cheese and cheese products, melted cheese and cheese products, cream, curd cream, spread products of milk and butter, mixed spreads, milk fat, scalded cream, buttermilk, whey, dry milk products, fresh mil products (such as milk, cream, curd, curd products, yoghurts, desserts, cake cheese, coated cake cheese, acidified milk).

As main activity of ABF “Šilutės Rambynas” is meant the mintage, production and selling the enzymatic cheese and cheese products as well as scalded cream, scalded whey and concentrated whey. The activities’ character of the ŽŪK “Tarpučių pienas” is the postchill of the milk stock.



**4. Data on selling stock of the issuer in range of regulated markets**

The registered shares of common stock of JSC „Žemaitijos pienas“ are included to the list of Current stock list of Vilnius Stock Exchange since 13th of October, 1997. Stocks as issued by the Company are quoted by additional trading list of Vilnius Stock Exchange.

Stock types – ordinary nominal stocks

Number of stocks - 48 375 000;

Total par value - 48 375 000 Lt;

ISIN code of stocks LT0000121865;

Symbol of Vilnius Stock Exchange - ZMP1L

**5. Information on contracts with financial intermediaries of stocks' public turnover**

The Company has concluded the Agreement with Joint Stock Company “Šiaulių” bank, situating at address Tilžės str. 149 on 16<sup>th</sup> of July, 2004, under which regulation of the stocks as issued by the Company since 23<sup>rd</sup> of July, 2004, is transferred to JSC “Šiaulių” bank.

**6. Data on trading the shares of the Group of enterprises in range of regulated markets**

48 375 000 ordinary nominal stocks of JSC “Žemaitijos pienas” are included to NASDAQ OMX Vilnius Additional stock trading list (Symbol of Vilnius Stock Exchange - ZMP1L). 1 stock is of 1Lt nominal amount.

The stocks as not participating within the authorized capital, the turnover of which is regulated by legislation of the Republic of Lithuania, are absent.

Stock trading within other Stock Exchanges and other organized markets was not prosecuted.

The history of JSC “Žemaitijos pienas” is provided below as concerned with trading the stocks in range of NASDAQ OMX Vilnius Stock Exchange during the period 2007-2010:

Index	year 2007	year 2008	year 2009	year 2010
Opening price	25,25	22,95	0,60	1,04
Highest price	27,2	26,01	1,44	2,572
Lowest price	20,45	0,48	0,48	1,02
Final price	22,5	0,6	1,03	2,414
Units turnovers	741.669	1.639.916	14.273.509	7.623.027
Turnover (in mil.)	16,66	3,97	11,53	11,74
Plough-back (in mil.)	108,84	29,03	49,83	116,75

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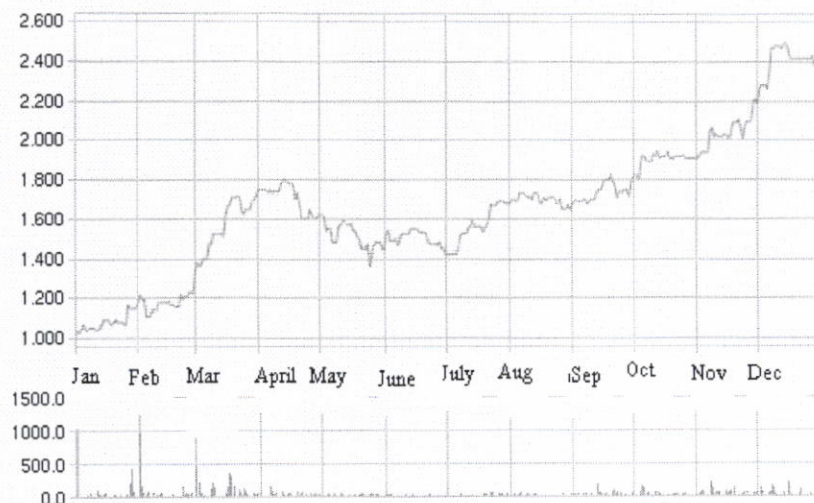
Stock transactions of JSC “Žemaitijos pienas” within NASDAQ OMX Vilnius Stock Exchange are provided below:

Reporting cycle		Price (Lt)			Turnover (Lt)			Date of final session	Total turnover	
since	till	max.	min.	Final session	max.	min.	final session		(units)	(Lt)
2006.01.01	2006.03.31	20,90*	18,15*	20,40*	388131,30	0	20455,00	2006.03.31	70621*	1355512,31
2006.04.01	2006.06.30	21,10*	18,02*	19,50*	469989,34	0	3878,20	2006.06.30	72122*	1487329,26
2006.07.01	2006.09.30	19,20*	18,20*	18,36*	211179,95	0	12961,92	2006.09.29	32366*	603870,82
2006.10.01	2006.12.31	27,00*	18,00*	24,98*	994131,52	0	21424,46	2006.12.29	126904*	2811010,07
2007.01.01	2007.03.31	25,80*	21,50*	24,45*	1551091,80	0	9882,00	2007.03.30	244198*	6149153,28
2007.04.01	2007.06.30	24,48*	20,50*	22,50*	123109,00	0	28445,90	2007.06.29	45575*	980996,61
2007.07.01	2007.09.30	26,36*	20,50*	25,00*	2896764,09	0	27177,20	2007.09.28	412115*	8577471,35
2007.10.01	2007.12.31	25,20*	22,50*	22,70*	135087,25	0	44258,33	2007.12.28	39781*	950569,12
2008.01.01	2008.03.24	26,01*	20,80*	22,30*	253915,34	0	8205,00	2008.03.04	94225*	2151710,39
2008.03.25	2008.03.31	2,40	2,22	2,22	18390,64	0	2950,00	2008.03.31	18579	42168,66
2008.04.01	2008.06.30	2,21	1,60	1,73	88536,31	0	1881,00	2008.06.30	348876	627384,43
2008.07.01	2008.09.30	1,70	1,24	1,24	56815,40	0	1004,00	2008.09.30	272759	419727,24
2008.10.01	2008.12.31	1,25	0,50	0,60	74821,50	0	461,00	2008.12.29	905477	725090,79
2009.01.01	2009.03.31	0,66	0,48	0,50	627365,70	0	875,00	2009.03.31	2470477	1474090,09
2009.04.01	2009.06.30	0,82	0,49	0,67	686402,16	0	19159,56	2009.06.30	4226779	2828899,35
2009.07.01	2009.09.30	1,32	0,63	1,06	543585,51	0	18110,62	2009.09.30	5114462	4576203,11
2009.10.01	2009.12.31	1,19	0,92	1,05	303011,29	0	23996,10	2009.12.30	2461791	2646416,65
2010.01.01	2010.03.31	1,72	1,03	1,70	992758,18	0	47337,23	2010.03.30	4282788	5571108,39
2010.04.01	2010.06.30	1,80	1,36	1,45	161450,13	0	6612,00	2010.06.30	1083548	1743183,90
2010.07.01	2010.09.30	1,83	1,42	1,72	167319,47	0	42942,82	2010.09.30	793571	1352007,88
2010.10.01	2010.12.31	2,493	1,78	2,279	208683,55	0	13197,50	2010.12.30	1463120	3073421,99

\*Par value of 1 stock – 10 (ten) litas.



Turnover and stock price schedule of JSC “Žemaitijos pienas” in 2010:



## 7. Authorized capital of the issuer:

On 3th of December, 2010, authorized capital of JSC “Žemaitijos pienas” was the following:

Type of the stock	Number of stocks (units)	Par value (Lt)	Total par value (Lt)	Part of authorized capital (%)
Ordinary nominal stocks	48 375 000	1	48 375 000	100

All stocks are fully paid and none of limitations of remising the stocks are applied to them.

## 8. Impartial review of condition processing activities and development of the enterprise

JSC “Žemaitijos pienas” is meant as the largest and the most modern milk processing enterprise of Lithuania.

JSC “Žemaitijos pienas” was founded in 1924. Since that time started working Telšiai dairy, the potential of which was meant as rather extensive. At the end of 1984 year Telšiai dairy has continued working within new premises that was operative until opening and privatizing Telšiai cheese enterprise in the year 1993, as the largest over all Baltic countries. JSC “Žemaitijos pienas” was registered on 23<sup>rd</sup> of June, 1993 at the Department of Telšiai region after it was registered anew on 16<sup>th</sup> of October, 1998 at the Ministry of Economy of the Republic of Lithuania.

Work experience and unique recipe-formulas that were accumulated during the years, currently provide possibilities to represent to the consumers the wide range of the products that make their mark of excellent taste and of highest quality. The variety of the processed products and their quality has been improved by means of consulting with firms as the best in Europe and America, paying the most attention to introducing new technologies as well as using the most progressive technology in the world, such as membranous cleaning of milk “Bactocatch”. The Company’s production is the following: fresh milk products, butter, enzymatic and melted cheese and also – dry milk products.

The production of the Company is appreciated by the most part of Lithuanian consumers and the consumers of the foreign countries. JSC “Žemaitijos pienas” exports its production to the following



countries: European Union, Baltic countries, Russia, Belarus, USA, Israel, Croatia and others. Not only popularity of the production shows its high quality, but also plenitude of various awards that were gained at national and international exhibitions.

Most of the products processed by JSC “Žemaitijos pienas” conform not only to European, but also to international standards; they are presented by golden medals and by diplomas of national and international exhibitions.

The Company has reprocessed on the average 210 thousand t of organic milk per year and 1934t of ecological milk; it produces 9825t of enzymatic cheese, 5351t of butter, 146t of fat-free milk powder, 8374 of whey powder, 1057t of ecological milk, 474t of ecological yoghurt (organic and with additives), etc.

In 2006, National Food and Veterinary Service of the Republic of Lithuania as on the ground of the order № B1-800 of 13-12-2006 of Director of the Service, namely “On veterinary endorsement of the subject of animal food management”, has declared the order № 4-104 of 20-07-2005, namely “On providing the numbers of veterinary maintenance”, as unavailable and approved the conformance of JSC “Žemaitijos pienas” to requirements of sanitary regulations herewith approval it for production of milk products for JSC “Žemaitijos pienas”, by giving the approval number 78-01 P.

In 2006, JCS “Žemaitijos pienas” was audited by German accreditation body DAR, as for the laboratory conformance to requirements of DIN EN ISO/IEC 17025:2000, and the conformance was approved by the conformance certificate. Registration number given by DAR is DAP-PL-3977.00.

The ecological products were started being produced by the Company in 2007. Public enterprise “EKOAGROS” has attested that the production of JCS “Žemaitijos pienas” conforms to requirements of European Council Regulation (EEB0 № 2092/91) as well as to requirements of the Rules for Agriculture. Production was certified for the following products: ecological cheese - 45% richness of dry material, ecological milk - 25% richness, ecological yoghurts (Certificate № SER-K-07-00010, registration № 060670P).

In May month of 2008, JCS “Žemaitijos pienas” on the ground of purchasing-selling transaction has acquired 87, 82% (754 938 units) of ordinary nominal stocks of ABF “Šilutės Rambynas”, which were managed by JCS “Žemaitijos pieno investicija” under proprietorship as for 10 878 000 Litas, i.e. 14, 41 Litas were paid for one stock.

In September of 2008, the daughter enterprise of JCS “Žemaitijos pienas”, namely UAB “Žemaitijos pieno žaliava”, was signed out of the Register of juridical persons.

JSC “Žemaitijos pienas” and ABF “Šilutės Rambynas” pays much regards to safety and quality of the production by meeting the needs of the clients and the requests for environmental protection. By this reason, new corporate and integral food protection and quality management system is planned to be created (according to requirements of ISO 22000:2006 and ISO 9001:2008).

On 30<sup>th</sup> of April, 2009 the Company was granted the certificates of “ISO 9001 Quality Management” and “ISO 22000 Food Safety Management Systems”. The same certificates were granted to Company “Šilutės Rambynas” that belongs to the group of the enterprises. The scope of certification is the creation, manufacturing and selling new milk products. Management systems’ Certificate ISO 9001 shows the fact that quality management system has been implemented within the enterprise, which makes the management of the company effective, in line with the valuables and intensions being established all over the world. ISO 22000 Food Safety Management Systems certificate shows that the enterprise warrants the safety of the food in scope of production, supply and up to consumption. All enterprises that have ISO 22000 certificates must give exceptional attention to the processing products by extending activities of environmental control; also to sufficient hygiene of production for the aim to warrant final products to be of high quality.

In 2009, the auditors of international certification body Bureau Veritas Certification has performed 1st supervisory auditing (according to requirements of the standards ISO 22000:2006 and ISO 9001:2008) on integrated food safety and quality management system of JCS “Žemaitijos pienas”. The nonconformity was absent.



In 2009, the auditors of international certification body Bureau Veritas Certification has performed auditing according to requirements of BRC (Global Food Standard Issue 5 (British Consortium) on cheese-butter production as well as on manufacturing melted and prepacked cheese.

In 2009, JCS “Žemaitijos pienas” was successfully audited by Veterinary and Fito-sanitary Supervision service of Russian Federation.

In 2009, JCS “Žemaitijos pienas” was successfully audited by Veterinary Service specialists of Belarus and Ukraine.

In 2009, JCS “Žemaitijos pienas” was successfully audited by the auditors of Veterinary service of USA.

## **9. Description of general fields of risk and uncertainties, to which enterprise confronts**

The enterprise is occupied by production of milk. Main factors creating the risks for business of the enterprise are meant as possible variations of the markets, products and raw materials; also political, legal, social or technological changes that, as concerned with business of JSC “Žemaitijos pienas”, might have negative influence for the cash flow and operating results of the Company.

Main raw material of the enterprise is milk, the amount of which, as to be sold to milk producers of European Union, is limited by national milk quotas. Limitations for raw materials' supply are able to influence shortage of raw materials and raising its prices. Such variations might have negative influence for the cash flow and operating results of the Company.

Business of the Company (collection and wheeling of milk in particular) is meant to be such activity that requests for much working strength. Potential development and the potential results of the Company might be negatively influenced by rising of prices of fuel and also by increasing salary for the workers.

The Company specializes in the field of production of fresh milk and cheese, and the most part of its earnings consists of such earnings that are receivable after selling the products. By these reasons negative changes within the market of demands, prices of fresh milk and cheese likewise are able to influence earnings, profit and general financial condition of the Company. The price of the products also might suffer negative influence, while being under competition in local and international milk products' market.

The most influence for effectiveness of processing of milk, while using equipment, depends on raw milk seasonal possibilities that prevail in Lithuania.

## **10. Analysis of the results of financial and non-financial activities herewith information on environmental questions and the staff**

Main financial indicators that reflect activities of the Company and the Group in 2010 (in thousand of Lt) are the following:

Financial indicators	According to international recording standards			
	year 2010		year 2009	
	Groups	Companies	Groups	Companies
Turnover	433.692	427.735	372.825	371.190
Total profit	89.555	85.054	69.804	67.944
Profit before taxing, interest and wear and tear	42.363	39.396	34.118	33.337
Profit before taxing	23.095	22.114	14.297	15.017
Amount of investments to long-term assets	6.963	6.113	10.361	9.630



Comparison of the prices and tonnage on procurement of raw milk in years 2008, 2009 and 2010:

<b>Procurement of raw milk (as recalculated to basic richness)</b>	<b>year 2010</b>	<b>year 2009</b>
Amount of received milk, thousands of t	318	311
Milk procurement price, Lt/t	745	531

Organic milk was received as follows: 280 thousand of t (in year 2008), 257 thousand of t (in year 2009) and 263 thousand of t (in year 2010).

Distribution, according to type of the products, of production sold by JSC “Žemaitijos pienas” within the period of 2009-2010 years was the following (in thousand of Lt):

<b>Name of the group of goods</b>	<b>Turnover in thousand, Lt</b>		<b>Changes, if 2010 and 2009 years are compared %</b>
	<b>year 2010</b>	<b>year 2009</b>	
Enzymatic cheese	193.869	159.282	21,71%
Fresh milk products	134.086	118.174	13,46%
Butter and spreading fat blends	48.320	32.871	47,00%
Dry milk products	18.289	17.889	2,24%
Ice-cream	115	4.312	-97,33%
Other	32.707	35.712	-8,41%
Export grants	349	2.950	-88,17%
<b>Total:</b>	<b>427.735</b>	<b>371.190</b>	<b>15,23%</b>

The sales of the Group as after geographical (secondary) segments (in thousand of Lt):

<b>Sales after geographical segments</b>	<b>year 2010</b>	<b>year 2009</b>
Lithuania	248.931	210.457
Other Baltic states and countries of ISU	112.876	74.846
Other European countries	63.666	73.041
USA	126	2.295
Other	8.093	12.186
<b>Total:</b>	<b>433.692</b>	<b>372.825</b>

### **Environment control**

JSC “Žemaitijos pienas” as the enterprise that processes and sells milk products, according to stated criterions is attached to the group of Equipment that are provided by Annex 1 of IPPC Rules of the environment control license. On 29-12-2006, Integrated Pollution Prevention and Control license was issued for the Company that term of being in effect is not limited, nevertheless, it should be corrected according to changes. The Company doesn't provide negative effect to the environment, any such, for which the means should be taken as to minimize it; nevertheless, the Company observes indications of its activities, plans and implements the investments that might minimise costs of processing as well as of energy consumption, with the aim to increase environment control conditioning. Moreover, the Company



finds itself always ready to solve questions of environment control in mutual relations with the community.

In 2008, the Company has implemented integral system of quality and food safety management, which conforms to requirements of the standards ISO 9001:2008 and ISO 22000:2005 in general; besides this, it plans to implement the system of environment control, namely – ISO 14000.

The Company doesn't provide perceptible negative effect to the environment. The polluted wastewater is given to be cleaned by the city. The fuel, which is used in the boiler-room, is natural gas, which pollution to atmosphere is minimal. According to the plan of distribution of circulating Pollution Allowances of 2008-2012 years, the Company is not included to circulating PA trading system. Company doesn't provide negative effect to the environment. Natural resources are used economically. The environmental exposure is controlled according to mutually matched monitoring programmes.

The enterprise has developed the plans for elimination of possible accidents as well as of their reasons, has repository of gas-station and of freezing ammonia-pump – in view of identification of the hazards, risks analysis and safety assessment, these are meant as hazardous object.

Waste and the packages are managed in line with requirements of environment control. JSC "Žemaitijos pienas" separates secondary raw materials from general waste flow and consistently carries them to collectors and re-makers. Hazardous and non-hazardous waste in the territory stored and maintained in such way, as they shouldn't negatively affect the environment; the mentioned waste are screened and their storage places are respectively marked. Timely the waste is carried to their disposal establishments.

The Company constantly effectuates investments' project, during which the implementation of new technologies is carried out that gives opportunity to use energetic resources more effectively.

After implementation of the second part of the project, worn equipment will be replaced with new modern ones; by this reason the quality of the products shall increase and air pollution with solid particles that are generated by the line of pre-packing of the flour as well as pollution of waste water shall be decreased.

While pursuing policy of human resources, the Company strives to create and maintain good relationships with its employees. The employees have opportunity to develop their own knowledge and skills. The Company has prepared training programmes as for: production workers, workers that operate apparatus, production operators, production machinists-operators, production foremen and for trading personnel.

### **Professional training**

<b>Ser. №</b>	<b>Name of tasks/training</b>	<b>Number of employees as being trained</b>	<b>Comments</b>
1.	New workers were trained under the programme of introductory training	74	
2.	Production workers were trained and assessed under the programme for successive training	50	
3.	Production workers were trained (and training still going on) under the programme for successive training	32	
4.	The employees were trained by specialists of the Company during immanent training	250	10 lessons
5.	The employees were trained during immanent training (payable service)	145	8 lessons

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6.	New production foremen and taskmasters were assessed	4	
7.	The employees were trained for juxtaposition of the specialities	1	
8.	Employees that were trained on questions of safety	436	
9.	The employees were trained for operating new equipment	11	
10.	Participation in outer training (courses, seminars and conferences)	99	46 lessons
11.	Prepared training programmes	49	
	<b>Total:</b>	<b>1.151</b>	

**11. References and additional explanations on data provided by annual financial report**

The data provided by annual financial accountability and explanatory letters are sufficient and exhaustive, so they don't need additional explanation.

**12. Number of the shares, which are acquired and owned by the enterprise; par value of stocks as part of the authorized capital with respect to their number**

During the reporting cycle the Company didn't acquired stocks as its own and didn't assign any of them.

**13. Number of the shares that were acquired and assigned during the reporting cycle; par value of stocks as part of the authorized capital with respect to their number**

During reporting cycle the Company didn't acquire stocks as its own and didn't assign any of them.

**14. Information on payment for own stocks, being acquired or assigned for remuneration**

During the reporting cycle the Company didn't acquired stock as its own and didn't assign any of them.

**15. The source of acquisition of own stocks by the Company during reporting cycle**

During reporting cycle the Company didn't acquire stock as its own and didn't assign any of them.

**16. Information concerning subsidiaries and agencies of the enterprise**

At moment of 31<sup>st</sup> of December 2010, the consolidated Group of Joint Stock Company (JSC) „Žemaitijos pienas“ is composed of general enterprise “Žemaitijos pienas“ and its daughter enterprises. Daughter enterprises are the following:

ABF “Šilutės Rambynas”, registration code: 277141670.

Authorized capital - 8.596.650 Lt. The company owns 87, 82 percents.

Office address – Klaipėdos str. 3 Šilutė.

Activities' character – enzymatic cheese production.



ŽŪK „Tarpučių pienas“, registration code: 151449845.

Authorized capital - 496.027 Lt. The company owns 10, 08 percents.

Office address – Klaipėdos str. 3, Šilutė.

Activities' character – postchill of the milk stock.

Under Agricultural Law, the substance of the company is established under proportional percentage of the sales together with particular company; by this reason ŽŪK „Tarpučių pienas“ is meant as the daughter enterprise, because it's selling to the company amounts to 100%. ABF „Šilutės Rambynas“ is meant as daughter enterprise similarly, because more than 50% of the shares are managed by the JSC „Žemaitijos pienas“.

JSC „Žemaitijos pienas“ has 7 wholesale subdivisions together with storehouses and transportation means in largest cities of Lithuania. They are the following:

Vilnius subsidiary at address: Algirdo str. 40/13, Vilnius

Kaunas subsidiary at address: Kėdainių str. 8A, Kaunas

Anykščiai subsidiary at address: Vilties str. 4A, Anykščiai

Alytus subsidiary, address: Putinų str. 23, Alytus

Klaipėda subsidiary at address: Šilutės road 33, Klaipėda

Panevėžys subsidiary at address: J. Janonio str. 9, Panevėžys

Telšiai subsidiary at address: Sedos str. 35, Telšiai

## **17. Important events that took place since the end of the last financial year**

### **Certified products in 2010**

- Kastinys (Lithuanian dish) of JSC „Žemaitijos pienas“ – the certificate of the Public Enterprise “Kulinarijos paveldo fondas”(“Fund of cuisine heritage”).(Certificate № 3P of 06 01 2010).
- International exhibition of alimentary products “Prodexpo – 2010”. Solid, semi-rich enzymatic cheese “DŽIUGAS” *BRONZE, SILVER, GOLD* and natural shareable cheese-sausages “PIK-NIK” were assessed by golden medal (8-12<sup>th</sup> of February, 2010 Moscow).
- JSC “Žemaitijos pienas”:
  - Ecological milk of 2,5% richness.
  - Ecological yoghurt of 2,4% richness.
  - Ecological yoghurt with cherry of 2,0% richness.
  - Ecological yoghurt with strawberry of 2,0% richness.
  - Ecological yoghurt with lemon and ginger of 2,0% richness.
  - Ecological cheese of 45% richness of dry material.(Public enterprise “EKOAGRO” LT-01) (Certificate № SER-K-10-00035 of 08 03 2010).
- JSC “Žemaitijos pienas”:
  - Ecological yoghurt with red current and apples of 2,0% richness.
  - Ecological yoghurt with mint of 2,0% richness.(Public enterprise “EKOAGRO” LT-01) (Certificate № SER-K-10-00041 of 19 03 2010).
- JSC “Žemaitijos pienas”: curd cheese - the certificate of the Public Enterprise “Kulinarijos paveldo fondas”. (Certificate № 3P/2 of 03 03 2010).
- JSC “Žemaitijos pienas”: “Curd dessert with strawberry” “Fainimon” 5% pre-packed in contents of 130 g, was awarded by golden medal during “AgroBalt2010) (18<sup>th</sup> international exhibition of agriculture, food and packing industry on 29 04 2010).



- ABF “Šilutės rambynas”: pieces of cheese Jončadaro with species “IŠKYLAUTOJŲ” was awarded by diploma “AgroBalt2010) (18<sup>th</sup> international exhibition of agriculture, food and packing industry on 29 04 2010).
- At the Government of the Republic of Lithuania the honours were taking place for winners of competition “The most popular article and the supplier 2009) held by ‘ Association of Lithuanian Trade Enterprises” on 16<sup>th</sup> of June, 2010:  
JSC “Žemaitijos pienas”: butter blend “Saulutė”,  
JCS “Žemaitijos pienas”: clabber “Žemaitijos”,  
JCS “Žemaitijos pienas”: coated curd cheese “Magija”,  
JCS “Žemaitijos pienas”: melted spreading cheese “Mildutė”,  
ABF “Šilutės Rambynas”: natural shareable cheese sticks PIK-NIK.
- At international single-purpose exhibition of food industry “Peterfood 2010”, which took place in Saint-Pertesburg, solid cheese “Džiugas” produced by JSC “Žemaitijos pienas” as the most popular article has been awarded by diploma (on 15-17-11-2010).
  - JCS “Žemaitijos pienas”: homemade curd cheese with caraway of 20% richness. Confederation of Lithuanian Industrialists. Golden medal of tender “Lithuanian product of 2010”. (30-11-2010).
  - JSC “Žemaitijos pienas”: enzymatic cheese “Žemaitiškas kastinys”.
  - Confederation of Lithuanian Industrialists. Golden medal of tender “Lithuanian product of 2010”. (30-11-2010).
  - On 10<sup>th</sup> of July, 2010, cheese “DŽIUGAS” was christened. His Excellency President Valdas Adamkus and missis Alma Adamkienė were the sponsors.
    - Pre-packed semi-fat cheese as of 30% richness of dry material (VILNIUS, PALANGA) was certified at Kaliningrad Certification centre (on 12 10 2010; Certificate № C-LT- AЯ19.B. 50057).
    - Solid smoked cheese “Džiugas” of 40% richness of dry material was certified at Kaliningrad Certification centre (on 18 10 2010; Certificate № C-LT- AЯ19.B. 51055).
    - Solid cheese “Džiugas” of 40% richness of dry material in original package (Wooden bag) was certified at Kaliningrad Certification centre (on 07 12 2010; Certificate № C-LT- AЯ19.B. 52780).

**In 2010, the following audits were performed:**

- 1<sup>st</sup> supervisory audit (according to requirements of the standard ISO 22000:2006 and ISO 9001:2008) of integral food safety and quality system of JSC “Žemaitijos pienas” was performed by international certification body, namely Bureau Veritas Certification; besides this, it has performed audit of cheese and butter production and melted-prepacked cheese production according to BRC (Global Food Standard Issue 5 (British Retail Consortium) requirements ( on 02-04 02 2010 and j8 03 2010; Certificate DNKFRC92283F).
- 2<sup>nd</sup> supervisory audit (according to requirements of the standard ISO 22000:2006 and ISO 9001:2008) of integral food safety and quality system of JSC “Žemaitijos pienas” was performed by international certification body, namely Bureau Veritas Certification on 23-24 11 2010.
- Audit that was performed on JSC “Žemaitijos pienas” by National Food and Veterinary Service, Telšiai district:
  - 04 02 2010, Control act of milk processing enterprise № V- 22
  - 09 03 2010, Control act of milk processing enterprise № V- 67
  - 17 03 2010, Control act of milk processing enterprise № V- 77
  - 03 06 2010, Control act of milk processing enterprise № V- 194
  - 15 09 2010, Control act of milk processing enterprise № V- 385
  - 02 11 2010, Control act of milk processing enterprise № V- 468
  - 02 11 2010, Control act of milk processing enterprise № V- 468



22 1 2010, Control act of milk processing enterprise № V- 510

Audit that was performed by Public enterprise Agency of Lithuanian Agriculture and Agency of regulation of market of the food products:

- At place of approval storage-house on 29 06 2010; act № 2010 /301PTV- 32.
- At place of approval processing milk enterprise on 29 06 2010; act № 2010 /301PTV- 33.
- At place of approval of cold storage on 29 06 2010; act № 2010/301PTV-34,
- At place of approval processing milk enterprise on 24 11 2010; act № 2010/301PTV-47,
- At place of control approval of store-house on 24 11 2010; act № 2010 /301PTV- 48.
- At place of approval of cold storage on 24 11 2010; act № 2010/301PTV-49,
- JSC “Žemaitijos pienas” was audited by the auditors of Veterinary Service of USA army.

ŽŪK „Sodžiaus pienas“ has been liquidated on 14-05-2010.

### **18. Arrangement and forecast of activities of the enterprise**

Long-time objectives of JSC “Žemaitijos pienas” are the following: to become strong, technically modern company as being attractive to investors; to create profitable market in European Union as well as in Baltic countries for its products, to retain highest quality of its products, fully avail potentials of existent industry and systematically accumulate intellectual capital.

Main running purposes of the Company are the following:

- to buy milk under market conditions, nevertheless, not more expensive then other market participants buy the raw milk in Lithuania;
- to minimize production costs and price of the products;
- to waive economically idle production as soon as possible;
- to store all processed products in modern premises;
- to increase trading for prices friendly to the Company. To concentrate attention to main bag of the strongest products and to maintain the part of the market, not less then of 20%. Within export markets to orient to the sales of production that has higher added tax;
- to strengthen marketing functions and the name of the Company;
- to minimize distribution expenses;
- to stimulate employees only for final result and for pursuance of their taken plans;
- to improve and renovate tenable equipment for technological processes and also its property of the vehicles continually, with the aim to achieve highest quality, cost-effectiveness and efficiency of production and the job.

### **19. Information on research and expansion of activities of the enterprise**

The Company pursues investments by doing this constantly; it searches for the methods that might warrant permanent development and more effective activities.

**20. In case, when enterprise uses the financial means as being important for assessment of the property and owned capital as well as liabilities and financial going of the enterprise, etc., the enterprise should disclose the objectives of management of financial risk herewith the means of covering main groups of the groups of intended transactions, for which accounting is applied.**

Information concerning financial risk of the issuer is provided by explanatory letter of Annual financial accountability.

## II. OTHER INFORMATION ABOUT THE ISSUER

### 21. The scheme of the authorized capital of issuer

48.357.000 Lt of authorized capital is registered to the Register of juridical persons. The capital is divided to 48.357.000 registered shares of common stock of nominal amount – 1Lt.

On 31<sup>st</sup> of December of 2010, the authorized capital of JSC “Žemaitijos pienas” was the following:

Type of the shares	Number of units of the shares	Par value (Lt)	Total par value (Lt)	Part of authorized capital (%)
Registered shares of common stock	48 375 000	1	48 375 000	100

All registered shares of common stock are fully paid and none limitations for assignation of the stock is applicable to them.

### 22. All limitations of assignation of the stocks

Limitations for assignation of the stocks are not applied.

### 23. The shareholders

On 31<sup>st</sup> of December, 2010, the company had 3 530 shareholders. All issued shares provide the same rights to the share holders that are provided by Companies' Law of the Republic of Lithuania and by statute of the Company.

Shareholders that manage more then 5% of the authorized capital of JSC “Žemaitijos pienas” under proprietorship and have the votes:

Ser. №	Shareholder	Number of the shares that belong under proprietorship	Part of the authorized capital and the votes under proprietorship, %	Part of available votes together with concerned persons %
1	Pažemeckas Algirdas	21 355 870	44,15	50,4
2	SKANDINAVISKA ENSKILDA BANKEN CLIENTS, code 50203290810, SERGELS TORG 2, 10640 STOCKHOLM, SWEDEN	5 131 830	10,61	10,61
3	JSC "Klaipėdos pienas", enterprise code 240026930, Šilutės road 33, 91107 Klaipėda	3 601 844	7,45	7,45
4	Pažemeckienė Danutė	3 025 820	6,25	50,4

**For assignation of stocks limitations are absent.** The shareholders undertake real and non-property rights and have the duties that provided by the Law on Joint Stock Companies of the Republic of Lithuania and by statute of the Company.

**Limitations as applicable to the voting rights.** All shares of the Company that provide voting rights are of the same par value and each of the shares endue with one vote at the General meeting of the shareholders.



## **24. Rights of the shareholders**

### **The shareholders of the Company have the following real rights:**

to receive the part (dividend) of profit of the Company; to receive the part of property of the Company that is liquidated; to receive the shares for free in case, when the authorized capital of the Company is increased by means of resources of the Company, except of cases provided by the law; when the shareholder is natural person – to settle according to will all or part of the shares to one or some persons; according to order provided by the law, transfer all or part of the shares to possession of any other people or to assign them in any other way.

### **The shareholders of the Company have the following non-property rights:**

to participate at the meetings, under the rights provided by shares to vote at the meetings; to receive non-confidential information concerning economical activities of the Company; to elect or to be elected to authorities of supervision and management of the Company; to take any position at the Company, unless the Law on Joint Stock Companies of the Republic of Lithuania and the Statute of the Company states differently; to submit actual proposals for the aim to increase financial, economical and organizational activities of the Company, to appeal to the court against the decisions or actions of the Meetings of the shareholders, Council of beholders, Board or Chief-executive of the Company that affect the Law of the Republic of Lithuania, statute of the Company as well as real and non-property rights of shareholders. Single shareholder or some of shareholders beyond particular authorization have the right to request for compensation of the loss as suffered by other shareholders; and other non-property rights provided by legislation.

The person acquires all rights and the duties that are provided by the part of the purchased authorized capital of the Company and (or) part of his voting rights: in case of increasing the authorized capital – since the day of registration of emendations of the statute of the Company as being concerned with increased authorized capital and (or) voting rights, in other cases – since the day of emergence of the proprietary rights to the part of authorized capital of the Company or to the part of the voting rights.

## **25. The shareholders that have special control rights and the portrait of any latter**

The shareholders that have special control rights at the Company are absent.

## **26. All limitations of the voting rights**

The shareholders that have limited voting rights at the Company are absent.

## **27. All mutual agreements between shareholders being able to restrict the assignation of the stocks and/or voting rights, which are known to issuer**

The issuer isn't aware about any mutual agreements between the shareholders that might limit the assignation of the stocks and (or) voting rights.

## **28. The stuff**

According to data of 31<sup>st</sup> of December, 2010, 1.550 employees were working as the Group. In comparison with 31<sup>st</sup> of December of 2009, the number of the employees has increased marginally.

During latter financial year, changes of the employees of JSC “Žemaitijos pienas” show the following average:

	<b>31 12 2010</b>	<b>31 12 2009</b>
<b>Average number of employees</b>	1.550	1.528

Employees’ groups with respect to their background:

<b>Number of employees</b>	<b>31 12 2010</b>	<b>31 12 2009</b>
Employees with highest education	217	214
Employees with further education	414	411
Employees with professional education	298	290
Employees with secondary education	517	510
Employees with unfinished secondary education	104	103
<b>Total:</b>	<b>1.550</b>	<b>1.528</b>

Average wage of employees of JSC “Žemaitijos pienas” group according to respective working groups:

<b>Subdivision</b>	<b>31 12 2010</b>		<b>31 12 2009</b>	
	<b>Number of employees</b>	<b>Average wage</b>	<b>Number of employees</b>	<b>Average wage</b>
Administration	121	3.820	133	3.194
Operating personnel	230	2.178	214	2.110
Transport subdivision	167	2.423	175	2.295
Purchasing of raw material	269	962	283	869
Production subdivision	447	1.790	411	1.533
Subdivisions	316	2.311	312	2.255
<b>Total:</b>	<b>1.550</b>		<b>1.528</b>	

Rights and the duties of the employees are provided by their official Rules. None of specific rights and duties is intended by work agreements.

## **29. The course of modification of the issuer’s statute**

The activities of JSC “Žemaitijos pienas” are guided by legislation of the Republic of Lithuania, by governmental resolutions and legal acts that regulate movement of the enterprise, also by Stock Exchange Law and the statute of the Company.

The statute of JSC “Žemaitijos pienas” might be emended according to order that is stated by legal acts of the Republic of Lithuania.

## **30. Issuer’s regulatory bodies**

Regulatory bodies of the issue are meant to be General meeting of the shareholders, Council of the beholders, the Board and Chief-executive of the Company, i.e. General Director. Regulatory bodies are the Board and General Director of the Company.

General meeting of the shareholders has the right:



to amend and supplement the statute of the Company; elect and revoke the auditing enterprise and the members of Council of the beholders; approve annual financial accountability and the report of the movement as provided by the Board; to take the decision to increase authorized capital; define the type, class and minimum emission rate of the stocks issued by the Company; to take decision and issue convertible bonds; to take decision to replace stocks of the proper type and class of the Company by the other and to claim the order of such replacement; to take decision for the Company on acquisition its own stocks; to take decision to reorganize the Company, to liquidate the Company and to revoke the liquidation of the Company; to take decision to reorganize the Company and maintain the project (conditions) of its reorganization. In cases provided by Law, the Board of the Company should be able to take decision on reorganization of the Company by means of incorporation; to take decision on allocation of the profit; to make decision to form the backlog, except of reappraisal backlog.

Audit Committee of the Company is formed of 3 members, one of them being independent. Under offering of the Board of the Company the members of the Audit Committee are appointed and revoked by the General meeting of the shareholders of the Company. The tenure term of the Audit Committee is restrained to 4 years. The members of Audit Committee were elected by General meeting of the shareholders on 21<sup>st</sup> of December, 2009.

The members of Audit Committee are the following:

1. Sigitas Ertmanas – independent member.
2. Viktorija Kungytė.
3. Asta šliogerienė.

Main functions of the Audit Committee:

to provide recommendations to the Board of the Company regarding selection, appointment and dismissing of undertaking for extrinsical audit, according to conditions as stated under agreement with mentioned undertaking; to watch the process of extrinsical audit; to watch, whether extrinsical auditor and the auditing undertaking follows the principle of independence and impartiality; to watch preparation process of annual financial reports; to pursue other functions that are provided by legal acts of the Republic of Lithuania and by recommendations of the Corporate Governance Codex of the Companies that are listed by Vilnius Stock Exchange.

Council of beholders of the Company is meant as collegial supervising body that performs supervision on activities of the Company. The Board is governed by the President. The Board of the Company consists of 3 (three) members, who are elected by General meeting of the shareholders for four years. It is supposed by statute of the Company that the number of the tenures should not be limited.

Powers and amenities of Council of the beholders:

It elects members of the Board and revokes them off position. If the Company operates wastefully, Council of the beholders must contemplate, whether the members of the Board are applicable for taking their position; supervises acting of the Board and of Chief-executive of the Company; submits to General meeting of the shareholders appreciations and proposals as for activities' strategy of the Company, for annual financial accountability, project of allocation of the profit and for reporting activities of the Company as well as for actions of the Board and Chief-executive of the Company; establishes (matches) monthly and quarterly limits of processing the production as provided by the Board of the Company; the processed production is intended being submitted to consumers to taste it free as the tasting is intended for analysis and extension of the market; at the end of the quarter the limits are approved by the Council of beholders; submits the proposals to the Board and Chief-executive of the Company to revoke their decisions that contradict with the Law and other legal acts, with the statute of the Company or with decisions of General meeting of the shareholders; resolves other questions provided by statute of the Company and by decisions of General meeting of the shareholders that are subsumed as ability of Council of the beholders and concerns supervision of activities of the Company and its regulatory bodies; defines the official wage of Chief-executive of the Company, if he is the member of the Board; on request of the Board considers the question of termination of Work agreement of the member of Council of beholders, who works at the Company.



The Board of the Company is meant as collegial management body that represents the shareholders of the Company at time between their meetings and takes decisions on overriding questions of economical activities of the Company. The order of operating of the Board is guided by working rules as accepted by the Board. The Board consists of 5 (five) members. The members of the Board are elected by Council of the beholders for the period not longer then 4 years. The number of the tenures should not be limited. The operating Board is governed by the President, who is elected one of the members of the Board.

The Board treat and maintain the following:

the strategy of activities of the Company; management structure of the Company and incumbencies of the employees; the incumbencies, to which the employees are accepted by way of the tender; under the consent of Council of the beholders estimates and approves the assortment and content of the processing production for each month, which is submitted to consumers for tasting free as the tasting is intended for analysis and extension of the market; approves the Rules of subsidiaries and agencies of the Company, official Rules and wages of General Director and the official Rules and wages of his assistants.

The Board elects and revokes Chief-executive of the Company. The Board endorses the candidates provided by the Chief-executive of the Company to be appointed as his assistants and the candidates to the posts, to which employees are accepted by means of the tender.

The Board should analyze and qualify the material provided by Chief-executive of the Company as follows:

the development of activities strategy of the Company; organization of activities of the Company; financial conditions of the Company; results of economic activity; estimates the outcome and income; stocktaking and other data of stocktaking as concerned with modifications of property; sources for accumulating financial resources and operating methods as well as transactions of the Company.

The Board analyzes and values the project of annual accountability of the Company as provided by General Director, project of allocation of the profit and, after these projects are approved, submits them to General meeting of the shareholders. The Board defines normative and the methods of calculation of tear and wear of material assets as well as of amortization of non-property assets.

The Board ought to run General meetings of the shareholders at time, to warrant preparation of the lists of the owners of ordinary shares, to frame schedules of General meetings of the shareholders, to submit annual financial accountability of the Company to shareholders as well as profit allocation project, report on activities and other information that is required for considering the questions included to the schedule.

Beyond the consent of General meeting of the shareholders, the Board takes decisions on the following questions:

the decisions for the Company might become the promoter or the participant of other juridical persons; the decisions for instituting subsidiaries and agencies of the Company; decisions on investment, assignation and lease of long-term property, the inventory value, which is more then 1/20 of authorized capital of the Company; decisions on soak and mortgage of long-term property, the inventory value, which is more then 1/20 of authorized capital of the Company; the decisions on accomplishment, sponsorship and reassurance of liabilities of any other persons, which sum is more then 1/20 of authorized capital of the Company; decisions as to purchase long-term property for the price, which is more then 1/20 of authorized capital of the Company; decisions on restructurization of the enterprises, on restructurization conditions and/or projects of restructurization or reorganization of the Company (Companies); decisions on entering of the Company to associations, trusties and/or consortiums and on secession of them; on questions concerned with committing the means for charity, for health care, culture, science, physical training and sports as well as for liquidation of the natural disasters and emergency situations; defines the proportion of funds as being disposed by Chief-executive of the Company; other decisions that are provided by the statute of



the Company or by decisions of General meeting of the shareholders that are attached to ability of the Board.

Chief-executive of the Company is meant to be General Director, who acts under the statute of the Company, decisions of General meeting of the shareholders, decisions of the Board and in line with the Rules assessed for administrative operation.

General Director plans daily movement of the Company and performs actions that are required for carrying out its functions, for implementing the decisions of regulatory bodies of the Company with the aim to warrant the movement of the Company. General Director of the Company is amenable for his taken actions and regularly must report to the Board.

Regulatory bodies of the Company in their activities are guided by powers provided by the Law of the Republic of Lithuania, legal acts and the statute of the Company. According to provisions of the mentioned instruments, regulatory bodies of the Company are elected, appointed and revoked of the appointment.

Chief-executive and administration of the Company:

Chief-executive of the Company is General Director, who acts under the statute of the Company, decisions of General meeting of the shareholders, decisions of the Board in line with the Rules assessed for administrative operation. General Director is elected and revoked by the Board of the Company. The tender might be organized as with the aim to select General Director. The President of the Board signs the work contract with General Director. Work contract with General Director, who is also the President of the Company should be signed by the member of the Board, who is authorized by it. If General Director is not the member of the Board, he should participate at meetings of the Board as after advisory right.

Chief-executive (General Director) of the Company:

He manages administration of the Company; in range of his ability transacts in the name of the Company; represents the Company in relation with third persons as well as at court and the arbitrage. The right to represent the Company is acquired by General Director since the day that is stated by the work contract; opens and closes accounts of the Company at banks; prepares management structure, lists of incumbencies, systems of wages and stimulation for labour of employees of the Company and submits it to the Board for approval; prepares the project of the agreement for signing the shares; employs and dismisses employees; structures and terminates work contracts with them, evaluates work results, gives disciplinary punishments and boosts to employees, including these of material character; establishes domestic working rules, approves regulations of the subdivisions of the Company and labour regulations for administration; issues authorizations enabling to perform function that are on his own ability; in cases provided by the Law on Joint Stock Companies calls General meeting of the shareholders; manages it, prepares projects of the documentation that are required for General meeting of the shareholders; ascertains safety of property and commercial secrets of the Company; performs other functions provided by legislation and present statute, disposes property of the Company, including financial assets.

General Director is amenable for his actions and he regularly should report to the Board.

### **Structure of Council of the beholders:**

Name and Surname	Position at issuer	Number of tenable stocks units	Tenable part of authorized capital %	Beginning of tenure	End of tenure	Began working at "Žemaitijos pienas"
Artūras Kanapienis	Chairman of Council of the beholders	19.860	0,04	18 09 2010	17 09 2014	-
Robertas Pažemeckas	Member of Council of the beholders	-	-	18 09 2010	17 09 2014	26 08 2002
Romusas Jarulaitis	Member of Council of the beholders	1.105.510	2,29	18 09 2010	17 09 2014	26 01 1988



**Structure of the Board:**

Name and Surname	Position at issuer	Number of tenable stocks units	Tenable part of authorized capital %	Beginning of tenure	End of tenure	Began working at "Žemaitijos pienas"
Irena Baltrušaitienė	Member of the Board Production Director	577.130		30 09 2008	29 09 2012	15 08 1975
Algirdas Bladžinauskas	Member of the Board ABF Šilutės Rambynas Director	-	-	30 09 2008	29 09 2012	20 08 1996
Dalia Gecienė	Member of the Board General financier	665.160	1,38	30 09 2008	29 09 2012	29 07 1986
Marius Dromantas	Member of the Board Logistics Director	-	-	01 06 2009	29 09 2012	01 12 2003
Algirdas Pažemeckas	Chairman of the Board, General Director	21.355.870	44,15	30 09 2008	29 09 2012	26 12 1986

**Administration:**

Name and Surname	Position	Number of tenable stocks units	Tenable part of authorized capital %
Algirdas Pažemeckas	General Director	21.355.870	44,15
Dalia Gecienė	General financier	665.160	1,38

The amount of money that is counted for regulatory bodies in 2010 is of 1 500 008,35 Lt. This amount was divided as follows: for members of Council of the beholders 480 739,43 Lt, for members of the Board 1 019 268,92 Lt.

**31. All important engagements, where the issuer participates as the party and that might become operative, transformed or terminated, if the control of the issuer is transformed in line with the effect, except of cases, when the disclosure of engagement as dependent on nature of the engagement trespass the issuer**

None of important engagements, where the issuer participates as the party and that might become operative, transformed or terminated, is present.

**32. All agreements between the issuer and the members of his regulatory bodies that provide compensation in case of retirement or being dismissed without legitimate reason, or if their activities come to the end, because of shifting control of the issuer**

The issuer didn't conclude agreements with employees of his regulatory bodies that might provide compensations in case of retirement or being dismissed without legitimate reason, or if their activities come to the end, because of shifting control of the issuer.

### **33. Information on approach of Corporate Governance Codex**

The discourse of JSC “Žemaitijos pienas” concerning pursuance of the Corporate Governance Codex of the Companies that are listed by Stock Exchange is provided by separate annex, which is the part of present consolidated annual report.

### **34. Data and information that was declared publicly**

Decision of the Board of JSC “Žemaitijos pienas” of 22-02-2010.

On 19-02-2010, the Board of JCS “Žemaitijos pienas” has decided to become the sponsor of “Lietuvos maisto pramonininkų asociacija” (= Association of Lithuanian Food Manufacturers) together with other juridical persons.

01-03-2010. Preliminary not audited operative results of JSC “Žemaitijos pienas” group of 2009. Consolidated not audited turnover of JSC “Žemaitijos pienas” group of 2009, reaches 372, 9 millions Lt (108 millions EUR). In comparison with the year 2009, the selling has decreased for 21%. The turnover has decreased by reason of decreased market prices of milk products. Not- audited net profit of JSC “Žemaitijos pienas” group in 2009 amounts to 3, 46% of the turnover. The Company has suffered the loss of 3, 7 millions Lt in 2008. The profit has increased by reason of lowered costs of production, transportation and similar activities.

19-03-2010. On ordinary General meeting of the shareholders of JSC “Žemaitijos pienas”. Under the lead and according to decision of the Board of JSC “Žemaitijos pienas” (enterprise code 300041701 at former address Sedos str. 35), ordinary General meeting of the shareholders was called at 15 h on 16<sup>th</sup> of April, 2010.

Schedule of the meeting:

1. Annual report of the Company;
2. Conclusions of the auditor of the Company regarding financial accountability and annual report of the Company;
3. Approval of audited financial accountability of the Company of 2009;
4. Approval of allocation of the profit (loss) of the Company of 2009;
5. On making the backlog for purchasing own shares;
6. On purchasing own shares;
7. Other questions.

02-04-2010. Projects of the decisions as prepared by the Board of JSC “Žemaitijos pienas”. Projects of the decisions that were prepared by the Board of JSC “Žemaitijos pienas” for General meeting of the shareholders that took place on 16<sup>th</sup> of April, 2010:

- 1.1. Audition of annual report of the Company;
- 1.2. Audition of conclusions of the auditor of the Company regarding the suit of financial reports and annual report of the Company;
- 1.3. Approval of audited suit of financial reports of the Company of 2009;
- 1.4. Approval of allocation of profit (loss) of the Company:

		Thousand, Lt
1.	Non-allocated profit (loss) at the beginning of the reported financial year	38.002
2.	Net profit (loss) of the reported financial year	12.333
3.	Remittance of backlog	-
4.	Contributions of the shareholders for covering loss of the Company (if all loss or the part of it was decided to be covered by shareholders)	-
5.	Total allocated profit (loss)	50.335
6.	Part of the profit that allocated to the backlog	-



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7.	Part of the profit of JS Company allocated to backlog for purchasing own shares	10.000
8.	Part of the profit that was allocated to other backlogs	-
9.	Part of the profit allocated for paying dividends	-
10.	Part of the profit that was allocated for annual profit sharing to the members of the Board and Council of the beholders, for bonuses for the employees and for other purpose.	-
11.	Non-allocated profit (loss) at the end of the reported financial year that is transferred to the next year	40.335

- 1.5. Accumulation of the backlog of 10 millions (ten millions) Lt for purchasing own shares.
- 1.6. Settling the conditions for purchasing own shares:
  - 1) the aim of purchasing the shares – to support and increase the price of the shares of the Company.
  - 2) number of ordinary nominal shares that should be purchased by the Company - 10% of authorized capital of the Company, i.e. 4 837 500 of units.
  - 3) term, during which the Company should be able to purchase own shares – 18 months from the date of taking the decision;
  - 4) definition of maximal price of the share unit that should be purchasable as own – 3 Lt; minimal price of the share unit should be defined as equal to par value of the share unit, namely – 1 Lt.
  - 5) under the conditions of the decisions and requirements stated by Law on Joint Stock Companies of the Republic of Lithuania, to provide rights to the Board of the Company to establish more detailed order and conditions for procurement/purchasing own shares with respect to criterions provided by decision of the shareholders of the Company and other conditions. By the decision the Board of the Company undertakes liability to perform any other actions for purchasing own shares of the Company.
- 1.7. Other questions.

19-04-2010. Decision of ordinary General meeting of the shareholders of JSC “Žemaitijos pienas“:  
The decision of ordinary General meeting of the shareholders of JSC “Žemaitijos pienas“

- 1.1. Annual report (as attached) of the Company was heard out.
- 1.2. Conclusions of the auditors regarding the suit of financial reports (as attached) were heard out.
- 1.3. Approval of the suit of financial reports (attached) of the Company of 2009.
- 1.4. Allocation of profit (loss) of the Company was approved.

Ser. No.		thousand of Lt	thousand of EUR
1.	Non-allocated profit (loss) at the beginning of the reported financial year	38.002	11.006
2.	Net profit (loss) of the reported financial year	12.333	3.572
3.	Remittance of backlog	0	0
4.	Contributions of the shareholders for covering loss of the Company (if all loss or the part of it was decided to be covered by shareholders)	0	0
5.	Total allocated profit (loss)	50.335	14.578
6.	Part of the profit that allocated to the mandatory backlog	0	0
7.	Part of the profit of JS Company allocated to backlog for purchasing own shares	10.000	2.896
8.	Part of the profit that was allocated to other backlogs	0	0
9.	Part of the profit allocated for paying dividends	0	0
10.	Part of the profit that was allocated for annual profit sharing to the members of the Board and Council of the beholders, for bonuses for the employees and for other purpose.	3.000	869
11.	Non-allocated profit (loss) at the end of the reported financial year that is transferred to the next year	37.335	10.813

- 1.8. The conditions were stated for purchasing own shares:



- 1) The aim of purchasing the shares – to support and increase the price of the shares of the Company.
- 2) number of ordinary nominal shares that should be purchased by the Company - 10% of authorized capital of the Company, i.e. 4 837 500 of units.
- 3) term, during which the Company should be able to purchase own shares – 18 months from the date of taking the decision;
- 4) to define maximal price of the share unit that should be purchasable as own – 3 Lt; minimal price of the share unit should be defined as equal to par value of the share unit, namely – 1 Lt.
- 5) under the conditions of the decisions and requirements stated by Law on Joint Stock Companies of the Republic of Lithuania, to provide rights to the Board of the Company to establish more detailed order and conditions for procurement/purchasing own shares with respect to criteria provided by decision of the shareholders of the Company and other conditions. By the decision the Board of the Company undertakes liability to perform any other actions for purchasing own shares of the Company.

03-05-2010. Report concerning transaction of the stocks of the issuer as being closely related with Chief- executive of the Company.

01-06-2010. Consolidated not audited annual financial accountability of JSC “Žemaitijos pienas” of 1<sup>st</sup> quarter of 2010.

14-06-2010. On specification of the results of activity of 2009

On 01-03-2010, JSC “Žemaitijos pienas” has declared not-audited intermediate consolidated financial accountability of 2009. Not-audited net profit under financial accountability amounts to 12905 thousand of Lt (3738 thousand of EUR).

On 19-04-2010, JSC “Žemaitijos pienas” has declared audited consolidated annual accountability of 2009, by which net profit has decreased to 11269 thousand Lt (3264 thousand EUR). Net profit has decreased by reason of land value tax and profit tax that was specified by the daughter enterprise JSC “Šilutės Rambynas”.

18-08-2010. On calling ordinary General meeting of the shareholders of JSC “Žemaitijos pienas”  
Under the lead and decision of the Board of JSC “Žemaitijos pienas” (enterprise code 300041701 at former address Sedos str. 35, Telšiai) ordinary General meeting of the shareholders was called at 15h on 17<sup>th</sup> of September, 2010.

Schedule of the meeting:

1. On revocation of Council of the beholders and election of new members of Council of the beholders.
2. Other questions.

27-08-2010. The result of the 1<sup>st</sup> half-year of JSC “Žemaitijos pienas” group of 2010.

Preliminary non- audited consolidated sales of the 1<sup>st</sup> half-year of 2010 of JSC “Žemaitijos pienas” group amount to 195, 7 millions Lt (56,7 millions EUR), i.e. they are for 5% better than for the same period of the last year.

Preliminary non- audited consolidated result of the 1<sup>st</sup> half-year of 2010 of JSC “Žemaitijos pienas” group amounts to 2,6 millions Lt (0, 75 millions EUR) of net profit.

27-08-2010. Project of the decision of ordinary General meeting of the shareholders of JCS “Žemaitijos pienas” of 17-06-2010

1. Revocation of Council of the beholders and election of new members of Council of the beholders.



Council of the beholders (Robertas Pažemeckas, Romusas Jarulaitis, Artūras Kanapienis) was revoked and new members of Council of the beholders, namely Robertas Pažemeckas, Romusas Jarulaitis and Andrius Valečka were appointed.

2. Selection of audit undertaking.

Audit undertaking "Nepriklausomas auditas" (=Independent audit) was selected and appointed to perform audit on the suit of consolidated financial reports.

25-08-2010. On supplementing the schedule of General meeting of the shareholders of JSC "Žemaitijos pienas"

Under the lead and decision of the Board of JSC "Žemaitijos pienas" (enterprise code 300041701 at former address Sedos str. 35, Telšiai) General meeting of the shareholders was called at 15h on 17<sup>th</sup> of September, 2010, and the schedule of the meeting was supplemented.

Schedule of the meeting:

1. On revocation of Council of the beholders and election of new members of Council of the beholders.
2. On selection of audit undertaking for performing audit of annual financial reports and establishment the conditions of paying the auditing services.
3. Other questions.

30-08-2010 - intermediate information of JSC "Žemaitijos pienas" for six months of 2010.

Financial intermediate accountability and report for six months of JSC "Žemaitijos pienas" of 2010 were provided and amenable persons were approved.

17-09-2010. Decision of extraordinary General meeting of the shareholders of JSC "Žemaitijos pienas" of 17-09-2010.

1. Approval of Council of the beholders: Robertas Pažemeckas, Romusas Jarulaitis, Artūras Kanapienis.
2. Selection of UAB "Nepriklausomas auditas" (= Independent Audit) as audit undertaking to perform audit of the suit of consolidated financial reports.

30-11-2010. Intermediate information of JSC "Žemaitijos pienas" for nine months of 2010.

Financial intermediate accountability and report for nine months of JSC "Žemaitijos pienas" of 2010 were provided and amenable persons were approved.

15-12-2010. On procurement of own shares of JSC "Žemaitijos pienas"

On the ground of decision of General meeting of the shareholders of JSC "Žemaitijos pienas", the enterprise begins to engross own nominal shares of 1 litas par value. The procurement of the shares is provided at NASDAQ OMX Vilnius Stock Exchange by means of official proposal. Assignments for selling the shares should be accumulated during all term of the procurement of the shares. If the offer of the shares shall exceed number of the shares to be engrossed, the number of buyable shares for all sellers of the shares shall be proportionally lowered. The beginning of the procurement of the shares is 20<sup>th</sup> of December, 2010. The end of procurement of the shares is 18<sup>th</sup> of January, 2011. 909 090 units is maximal amount of the shares that shall be engrossed. The price of procurement of the shares: 2, 20 LTL for one unit of the shares.

16-12-2010. Decision regarding procurement of own shares of JSC "Žemaitijos pienas" was emended.

On the ground of decision of General meeting of the shareholders of JSC "Žemaitijos pienas", the enterprise begins to engross its own nominal shares of 1 litas par value. The procurement of the shares is provided at NASDAQ OMX Vilnius Stock Exchange by means of official proposal. Assignments for selling the shares should be accumulated during all term of the procurement of the shares. If the offer of

the shares shall exceed number of the shares to be engrossed, the number of buyable shares for all sellers of the shares shall be proportionally lowered. The beginning of the procurement of the shares is 20<sup>th</sup> of December, 2010. The end of procurement of the shares is 18<sup>th</sup> of January, 2011. 1. 176 470 units is maximal amount of the shares that shall be engrossed. The price of procurement of the shares: 1, 70 LTL for one unit of the shares.

None other important events took place during the period since the end of financial year till declaration of consolidated annual report of 2009.

JSC “Žemaitijos pienas” has informed Stock Trading Commission of the Republic of Lithuania and Vilnius Stock Exchange (NASDAQ OMX Vilnius) regarding all important events as in line with the order stated by statute and by legal acts of the Republic of Lithuania. The reports were published within Central base of regulated information and by website of the Company [www.zpienas.lt](http://www.zpienas.lt). Information on meetings of the shareholders additionally was published by the dairy “Valstiečių laikraštis” (= Rustic newspaper). Information concerning transactions performed by the chiefs was published by websites of Vilnius Stock Exchange and of Stock Trading Commission of the Republic of Lithuania.

### **III. OTHER INFORMATION**

#### **35. Important events that took place since the end of the financial year**

28-02-2011 – preliminary not audited results of activity of JSC “Žemaitijos pienas” group of 2010.

Consolidated not audited turnover of JSC “Žemaitijos pienas” group of 2010 amounts to 433, 7 millions Lt (125, 6 millions EUR). In comparison to year 2009, the turnover has increased for 16, 3%. The growth of turnover was reasoned by export.

Not audited net profit of JSC “Žemaitijos pienas” group of 2010 amounts to 4, 46% of the turnover.

Attachments: suit of intermediate not audited consolidated financial reports of 2010 of JSC “Žemaitijos pienas”.

#### **36. Auditing data**

On 31<sup>st</sup> of December, 2010, UAB “Nepriklausomas auditas” has performed the audit on consolidated statement of financial position of the past year and the relating consolidated reports on statements of comprehensive income, of cash flows and modified owned capital. Finding of auditor was signed on 15 of March 2011.

Additional information that should be disclosed after legislation that regulate activities of the enterprise, legal acts and statute of the Company, but which wasn't disclosed by annual report and annual financial reports, is absent.



# I. INFORMATION ON APPROACH OF THE CORPORATE GOVERNANCE CODEX

## Report of JSC "ŽEMAITIJOS PIENAS" on following Corporate Governance Codex by the Companies listed by Vilnius Stock Exchange

JSC "ŽEMAITIJOS PIENAS" on the ground of part 3, article 21 of Stock Law of the Republic of Lithuania and clause 24.5 of the Listing Rules of NASDAQ OMX Vilnius here submits information on following Corporate Governance Codex of the listing Companies and its actual provisions. If the Codex and any provisions of it aren't followed, the Company points out, which actual provisions aren't followed and by what reasons.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT RELEVANT/	COMMENT
<b>Principle I: General provisions</b>		
<b>Main intention of the Company is meant to be appeasement of interests of the shareholders in order to warrant permanent growth of their property value.</b>		
1.1. The Company should prepare and declare publicly strategy and the aims of development of the Company by pointing out clearly, how it plans to dispose the interests of the shareholders and increase property of the shareholders.	Yes	The Company declares strategy and the aims of the Company by annual and mediate quarterly reports of activities of the Company.
1.2. Actions of all regulatory bodies should be concentrated to the development of the strategic aims with respect to the demand to increase property of the shareholders.	Yes	The Company is guided by strategic plan of the Company, in accordance to which working must be profitable; technically modern enterprise should be created and strengthened in order to increase property of the shareholders.
1.3. All regulatory and supervisory bodies of the Company should collaborate closely in order to achieve the most benefit of the shareholders.	Yes	Council of the beholders, the Board and Chief-executive of the Company collaborate closely as for the aim to achieve the most benefit of the shareholders.
1.4. Regulatory and supervisory bodies of the Company should warrant that the rights and interests are respected, not only of the shareholders of the Company, but also of other persons that participate in the actions of the Company or are concerned with it, namely, the employees, creditors, suppliers, clients and local community.	Yes	Regulatory and supervisory bodies of the Company warrant that the rights and duties of the shareholders and employees of the Company as well as of suppliers of raw materials. The possibility is given to employees to raise their qualification at training courses and seminars that take place in Lithuania and in foreign countries; various privileges are given to milk producers. Considerable part of the employees and the producers of milk are shareholders of the Company.
<b>Principle II: Management system of the Company</b>		
<b>Management system of the Company should warrant strategic management of the Company, effective supervision of regulatory bodies of the Company, relevant balance and sharing of the functions regulatory bodies of the Company and protection of shareholders' interests.</b>		
2.1. Beyond mandatory bodies as General meeting of the shareholders and Chief-executive of the Company that are provided by Law on Joint Stock Companies of the Republic of Lithuania, the advise is to form collegial supervisory body as well as collegial managing body. Creation of collegial supervisory and managing bodies of the Company warrants clear detachment of supervision and management functions, accountability and control of Chief-executive of the Company; in turn	Yes	Regulatory bodies of the Company are the following: General meeting of shareholders, Audit Committee, Council of beholders, the Board and Chief-executive of the Company.



<p>this postulates more effective and transparent Company's management process.</p> <p>2.2. Collegial management body is amenable for strategic guiding of the activities of the Company; it performs other general Company's management functions. Collegial management body is amenable for effective supervision of actions of regulatory bodies of the Company.</p>	Yes	These functions that are provided by advice are performed by collegial supervisory and management bodies of the Company, namely – Council of the beholders and the Board of the Company.
<p>2.3. It is advised that in case, when the Company forms single collegial body, it should be supervisory body, i.e. Council of the beholders. In this case, Council of the beholders is amenable for effective supervision of functions as performed by Chief-executive of the Company.</p>	Not relevant	Both Council of the beholders and the Board are formed by the Company.
<p>2.4. Collegial supervisory body that is elected by General meeting of the shareholders should be formed as acting after the order provided by III and IV principles. If the Company decides not to form collegial supervisory body, but form collegial supervisory body – the Board, then principles III and IV should be applied to the Board to such extent, which don't contradict with nature and purpose of the said body.<sup>1</sup></p>	Yes	Two collegial bodies are formed by the Company – Council of beholders and the Board of the Company. Provisions of principles III and IV are applied to them.
<p>2.5. Management and supervision bodies of the Company should be formed of such number of the members of the Board (Managing directors) and of Council of beholders (Consulting directors) that several persons couldn't dominate these bodies, while taking the decisions<sup>2</sup></p>	Yes	<p>Council of the beholders of the Company is of 3 (three) members.</p> <p>Board of the Company is of 5 (five) members.</p> <p>The Company holds on opinion that such number of the members of the Board should be meant as sufficient.</p>
<p>2.6. Consulting directors and the members of Council of the beholders should be appointed for the definite period and have the possibility to be individually re-elected at maximal intervals that allowed by legal acts of the Republic of Lithuania, as with the aim to warrant necessary growth of professional experience and sufficiently frequent re-approval of their status. Also the possibility should be provided to dismiss them, but the dismissing procedure should not be easier then dismissing of Managing director or the member of the Board.</p>	Yes	<p>According to statute of the Company, the Board and Council of the beholders of the Company are elected for 4 (four) years.</p> <p>The number of the tenures is not limited.</p> <p>Dismissing or retirement of the members of the Board or Council of the beholders of the Company is regulated by legislation of the Republic of Lithuania.</p>
<p>2.7. The Chairman of the collegial body that is elected by General meeting of the shareholders should become such person, whose previous or present office is not the barrier for performing supervision functions independently and impartially. When Council of the beholders is not formed by the Company, but the Board, then it is advised that the same person doesn't function as Chairman of the Board and as Chief-executive of the Company. Previous chief-executive shouldn't be appointed to the Chairman's post of the collegial body that is elected by General meeting of the shareholders immediately. When the Company decides not to follow these recommendations, the information should be provided regarding means that are taken in order to warrant impartiality of the supervision.</p>	No	<p>The Company doesn't follow recommendation provided by clause 2.7, because the Chairman of the Board and General Director is the same person. The impartiality of the supervision is warranted by other four members of the Board.</p>



<sup>1</sup> The provisions of the principles III and IV are preferably applied to these cases, when General meeting of the shareholders elects Council of the beholders, i.e. the body, which is generally formed in order to warrant supervision of the Board and Chief-executive of the Company as well as to represent the shareholders. Nevertheless, when Council of the beholders is not formed by the Company, but the Board, various recommendations as provided by principles III and IV become actually applied to the Board. However, it should be noticed that any recommendations that by their own nature and spirit are concerned with Council of the beholders exceptionally (for example, making the committees), should not be applied to the Board, because the aim and functions of this body, as after the Law on Joint Stock Companies (Žin., 2003, № 123-5574) are different. For example, clause 3.1 of the code regarding supervision of regulatory bodies, should be applied to the Board insofar, as it concerns with supervision of chief-executive of the Company, but not of the Board; clause 4.1 of the code regarding submission of recommendations to regulatory bodies is applicable insofar, as it concerned with recommendations that should be provided to chief executive; clause 4.6 of the code regarding independence of collegial body that is elected by General meeting of the shareholders, with respect to regulatory bodies of the Company is applicable insofar, as it concerned with independence with respect to chief-executive of the Company.

<sup>2</sup> Concepts of Managing Director and Consultant Director are used in cases, when the Company form single collegial body.

**Principle III: Order of forming collegial body as elected by General meeting of the shareholders.**

**The order of forming collegial body as elected by General meeting should warrant representing the interests of minor shareholders as well as accountability of the mentioned body to the shareholders and impersonal supervision of activities of the Company together with regulatory bodies<sup>3</sup>.**

3.1. Formation mechanism of collegial body (hereinafter with this principal – collegial body) as elected by General meeting of the shareholders should warrant impersonal and impartial supervision of regulatory bodies of the Company and relevant representing of the interests of minor shareholders.	Yes	As collegial supervisory body of the Company is meant to be Council of the beholders that is elected by General meeting of the shareholders. The Company discloses the information concerning candidates to collegial body of the Company. The right of representing interests of minor shareholders is not restricted; they are able to delegate their representative to collegial body.
3.2. The names, surnames, information concerning background, qualification, professional experience, other important professional liabilities and potential conflicts of the interests of the candidates to collegial body should be disclosed to the shareholders just before General Meeting by leaving sufficient time to the shareholder for taking decision as for what candidate should he vote. Moreover, all circumstances should be disclosed that might affect independence of the candidate (standard list of those is provided by 3.7 recommendation). The collegial body should be informed on later alterations of the information provided by this clause. Collegial body should collect data concerned with its members as provided by this clause yearly and submit them in annual report of the Company.	Yes	Information concerning members of the collegial supervisory body (names, surnames, information concerning background, qualification, professional experience, participation in the actions of other enterprises as well as other professional liabilities) is presented in annual report.
3.3. When the offer is to appoint the member of the collegial body, his actual scope should be pointed out that directly concerns working in the collegial body. For the shareholders and the investors might assess, whether this scope is relevant in future, collegial body should declare information about itself i.e. consistence actual scope of several members, that concerned with working in collegial body, by each annual report of the Company.	Yes	Before prospective election of the members of Council of the Board information concerning candidates is provided together with material of the meeting.
3.4. In order to maintain balance of the qualification that is tenable by the members of the collegial body, the consistence of the collegial body should be appointed in accordance with	Yes	The members of collegial bodies of the Company have long-lived experience of management of the



structure and character of activities of the Company and should be periodically assessed. The collegial body should warrant that its members as a whole have many-sided knowledge, opinions and skills for exercising the tasks. Members of the Audit committee as a whole should have modern knowledge and relevant qualification in the field of finances accounting and (or) auditing of the listed Companies. At least one of the members of wages committee should have knowledge and skills in the field of estimating the wages.		companies, many-sided knowledge and the skills for exercising the tasks.
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<sup>3</sup> Attention should be paid to the case that, if the collegial body as elected by Meeting of the shareholders is meant to be the Board, it should warrant supervision not for all regulatory bodies of the Company, but only for one-man regulatory body, i.e. Chief-executive of the Company. Comment is also applicable to clause 3.1.

3.5. For all new members of the collegial body individual programme should be offered in order to get information about the office, organization and activities of the Company. The collegial body should perform annual inspection for setting the fields, were knowledge and skills of the members should be renewed.	Yes	New members of the Board of the Company are informed on their office, organization and activities of the Company during meeting of the Board as well as individually, according to demand.
3.6. With the aim to warrant that all general conflicts of the interests concerned with the member of collegial body should be solved properly, sufficient <sup>4</sup> number of independent <sup>5</sup> members should be elected to collegial body of the Company.	No	At present the members of Council of the beholders of the Company do not conform to criterions as to assess independence, as it assessed by the Codex, because the members of the collegial body are working at the Company. Currently the Company has not resolved question regarding implementation of these provisions in future.
3.7. The member of the collegial body should be meant as independent only in such cases, when he is not bound by any business, relationship or other intercourse with the Company, with controlling shareholder or his administration, with respect to which conflict of the interests arise or might arise and which might influence the opinion of the member. Because it is impossible to list all cases, when the member of collegial body becomes dependent, moreover, because the relations and circumstances that concern with assessment of independence might vary in several Companies and the best practise of solution of that problem shall originate by time, then assessment of independence of the member of collegial body should be grounded by content, but not the form of the relations and circumstances. Main criterions, with the help of which might be stated, whether the member of the collegial body is meant as independent, are the following: 1) he cannot take the position of Managing director of the Company or relative Company or function as the member of the Board (if General meeting of the shareholders has elected collegial body as Council of the beholders) and didn't take such position for recent five years; 2) he cannot work as employee of the Company or relative Company and for recent three years didn't take	No	At present the members of Council of the beholders of the Company do not conform to criterions as to assess independence, as it assessed by the Codex, because the members of the collegial body are working at the Company. Currently the Company has not resolved question regarding implementation of these provisions in future.

such position, except of cases, when the member of the collegial body doesn't belong to supreme authority and was elected to collegial body as representative of the employees;		
3) he cannot receive or didn't receive significant additional wage of the Company or relative Company, except of the wage for labouring as the member of the collegial body. As such additional wage is meant		

<sup>4</sup> Actual numbers of independent members of the collegial body is not stated by the Codex. Particular number (for example, not less then 1/3 or 1/2 or the members of the collegial body) of independent members that have collegial body is stated by many codes of the foreign states. Nevertheless, with respect to novelty of category of independent members in Lithuania and to delicacy of selection and election of independent members, more flexible formula is consolidated by Codex as letting the Companies to decide themselves, which number of independent members is meant as sufficient. Better number of independent members in the collegial body must be stimulated without doubt and latter it should be meant as preferable Companies' management example.

<sup>5</sup> It should be noticed that in some Companies by reason of minimal number of minor shareholders the election of members of the collegial body might influence the votes of grand shareholder or some grand shareholders. Nevertheless, the member of the collegial body although he is elected by Company's main shareholders might be meant as independent, if he conforms to criterions of independence stated by the Codex.

also participation in transactions of choice of the shares or in other systems of the wage that depend on results of activities; allowances for previous working at the Company (including suspended compensations) as estimated according to the pensions' plan are not ascribed to them provided that such allowance by no means is concerned with further taken position);		
4) he shouldn't be meant as controlling shareholder or shouldn't represent such shareholder (the control is stated according to part 1 of the Directive 83/49/EEC of the Council).		
5) he can't have or didn't have during last year important business relations with the Company or with related Company directly or as the partner, shareholder, director or leading employee of the subject that have such relations. As having business relations is meant such subject that is important supplier of the goods or supplier of the services (including financial, legal, advisory and consulting services) as well as important client or organization that receives important payments of the Company or of its group;		
6) he doesn't be meant as employee or the partner of previous or current outer auditing undertaking of the Company or related Company and wasn't meant as such during last three years;		
7) he can't take the position of Managing director or the member of the Board of other Company, where the Managing director or the member of the Board (if collegial body as elected by General meeting of the shareholders – Council of the beholders) is the Consulting director of the member of Council of the beholders, also he can't maintain other important relationship with Managing directors of the Company, that appear by participation of them in actions of other Companies or the Bodies.		
8) he must not be appointed as member of the collegial body more then for 12years;		
9) he must not be meant as family member of Managing director or of the member of the Board (if collegial body as elected by General meeting of the shareholders		



– Council of the beholders) or intimate family member of the persons that are provided by clauses 1-8. As intimate family member is meant the spouse (cohabitant), children and parents.		
3.8. The content of independence definition is generally being established by collegial body itself. Collegial body is able to decide that the given member albeit conforms to all independence criterions that are stated by the Codex, nevertheless shouldn't be meant as independent with respect to particular personal or Company related conditions.		The Company didn't find additional criterions concerning independence of the members of collegial body.
3.9. The required information concerning conclusions should be disclosed that were used by collegial body, while it has explained, whether particular member could be meant as independent. When the appointment of the member of collegial body is offered, the Company must declare, whether it means him being independent. When actual member of collegial body does not conform to any of independence criterions provided by Codex, the Company should declare the reasons, why the member, by its opinion, should be meant as independent. Moreover, the Company should declare by each annual report, which members of collegial body it means being independent.	No	Members of Council of the beholders of the Company do not conform to independence criterions as provided by the Codex.
3.10. If any or some criterions of assessing independence as provided by Codex were not respected for years, the Company should declare reasons, why actual member of collegial body is meant being independent. In order to warrant accuracy of the information as submitted for showing independence of the members of collegial body, the Company should request independent members to approve their independence regularly.	No	The Company had no possibilities to develop independence of the members of Council of the beholder.
3.11. Independent members of collegial body might be remunerated for labouring and participation at meetings of collegial body by means <sup>6</sup> of the Company. The amount of such remuneration should be approved by General meeting of the shareholders.	No	The money isn't paid for members of Council of the beholders and of the Board for being occupied at Council or at Board (nevertheless, such possibility is provided by Company's statute).
<b>Principle IV: Duties and amenability of collegial body elected by General meeting of the shareholders</b>		
<b>Company management system should warrant that collegial body as elected by General meeting of the shareholders is functioning properly and effectively; the rights that are given to it should warrant effective supervision of regulatory bodies<sup>2</sup> of the Company as well as safety of interests of the shareholders.</b>		
1.1. Collegial body as selected by General meeting of the shareholders (hereinafter with the principle – collegial body) should warrant integrity and transparency of financial recording and control system of the Company. Collegial body shall regularly provide recommendations for regulatory bodies of the Company as well as supervise and control their actions on Company management.	Yes	The Board of the Company approves conclusions and offers regarding annual financial accountability of the Company, project of allocation of the profit and annual report of the Company; it considers the results of activities of the Company during the year and submits them to General meeting of the shareholders. The Board of the Company also performs other functions that are attached to it.

<sup>6</sup> It should be noticed that currently evidence is absent, by which form the members of Council of the beholders and (or) of the Board should be remunerated for their labour under the bodies. The Law on Joint Stock Companies (Žin., 2003, № 123-5574) settles that, as provided by order of the Article 59, profit sharing should be paid to the members for their labour at Council of the beholders and at the Board, i.e. the members are paid by means of the profit. This formula is meant different from the version of the same Law as being in effect until 1<sup>st</sup> of January of 2004; it doesn't state



that the members of Council of the beholders or of Board should be remunerated by profit sharing only. Therefore, the law doesn't intercept possibility to pay for labour of members of Council of the beholders or the Board not only by profit sharing, but also in other way, nevertheless such possibility is not consolidated by the Law clearly.

<sup>7</sup> See Footnote № 3

<sup>8</sup> See Footnote № 3. If collegial body as elected by General meeting of the shareholders is the Board, the recommendations should provided to one-man regulatory body, i.e. Chief-executive of the Company.

1.2. The members of collegial body should act fairly, thoughtfully and responsibly as on behalf of the Company and the interests of the shareholders by taking into consideration interests of the employees and wealth of community also. Independent members of collegial body should: a) retain independence of their analysis, actions and taking decisions; b) shouldn't strive any groundless privileges or accept them as they might discredit their independence; c) express their disagreement clearly in cases, if they suppose that the decision of collegial body should affect Company. If the collegial body has taken decisions that are doubtful for the independent member, in such cases the member should draw the conclusions. If independent member is retired, his retirement reasons should be explained by the letter submitted to collegial body or to Audit committee and, if necessary, to relevant body as irrespective to the Company.	Yes	The members of Council of the beholders of the Company and of the Board in pursuance of their duties are guided by interests of the Company. Cases as being the ground for considering opposite are absent.
1.3. Each member should mean for sufficient time and attention for exercising the duties of the member of collegial body. Each member of collegial body should undertake liability to limit his other professional undertakings (particularly functions of the director of other Company) in order they shouldn't prevent proper serving the duties of the member of collegial body. If the member of collegial body during financial year of the Company has attended less then half <sup>9</sup> sessions of the collegial body, such fact should become known to the shareholders.	Yes	The members of collegial body properly serve functions allocated to them: actively participate at meetings of collegial body and mean the sufficient time for performance of their duties as of members of collegial body. All sessions of collegial bodies have formed the quorums as possibility to take decisions constructively.
1.4. In case when the decisions of collegial body might differently influence the shareholders of the Company, the collegial body should deal fairly and impartially with all shareholders. It should warrant the shareholders' receiving information on matters, strategy and risk management of the Company as well as on solving the questions regarding conflicts of the interests. The role of the members of collegial body of the Company should be provided clearly as for communication with the shareholders and liabilities on their behalf.	Yes	The conflicts between the shareholders and members of collegial body are absent. The shareholders are informed on matters of the Company by order as provided by the Law, i.e. by Law on Joint Stock Companies and statute of the Company.
1.5. It is recommended, that the transactions (except of negligible as of insignificant value or transacted under standard conditions in pursuance regular actions of the Company) between the Company and its shareholders, members of supervisory or management bodies or other natural or juridical persons that influence or might influence management of the Company, are approved by collegial body. Decision concerning approval of these transactions should be meant as taken only in case, if majority of the members of collegial body positively vote such decision.	Yes	The transactions are made by regulatory bodies of the Company under provisions of the statute of the Company.

<sup>9</sup> It should be noted that the mentioned request might be tightened by the Company by stating, that the shareholders should be informed on the members, who unsatisfactory attend sessions of collegial body ( for example, in case, when the member has participated in less then 2/3 or ¼ of the sessions). Such means for making active participation at sessions of collegial body should be stimulated as they show more progressive example of management of the Companies.



<p>1.6. Collegial body, while taking decisions that have meaning for activities and strategy of the Company should be independent. Inter alia, collegial body should be independent with respect to regulatory bodies of the Company<sup>10</sup>. Persons that have elected the members of collegial body should not influence the labour of them. The Company should warrant the collegial body and its committees having sufficient resources (including financial) that required for accomplishment of their duties, including right to receive respective information, particularly of the employees; also the right to apply to outer legal, reporting or other specialists for independent professional advice on questions that depend to ability of collegial body or the committee. By using services of mentioned consultants and specialists for receiving information concerning market standards on systems for setting the wages, the wages committees should assure that the same consultant doesn't provide the same services to the department of human resources of the related Company or to the members of management or regulatory body at the same time.</p>	No	<p>The members of Council of the beholders and the Board are people working at the Company, and by this reason they are not independent with respect to regulatory bodies of the Company. Council of the beholders and the Board of the Company, while taking decisions, represent interests of the shareholders of the Company.</p>
<p>1.7. Actions of collegial body should be organized in such way, that independent members of collegial body should maintain great influence within the fields being particularly important, where possibility of conflicts of the interests is extremely presumable. These fields are meant to be questions concerned with appointments of the directors of the Company, setting the wage for directors of the Company and with monitoring and assessment of audit of the Company. Therefore in case, when mentioned questions are related to ability of collegial body, it is recommended such body to form appointment, wages and audit committees<sup>11</sup>. The Companies should warrant that functions related to committees of appointment, wages and auditing are fulfilled; nevertheless, the Companies are able to integrate them by creating less than three committees. In this case the Company should explain in details, why did they take alternative approach and by what means the selected approach conforms to objectives stated for three separate committees. In such Companies, collegial body of which has few members, collegial body itself might fulfil functions provided for three separate committees, if it conforms to requirements of consistence provided to committees and if discloses information regarding the question. In this case the provisions of the codex, concerned with committees of collegial body (particularly concerning their role, actions and transparency) should be applied (if suit) to whole collegial body.</p>	Yes/No	<p>The committees for Appointment and Wages that are provided by recommendations 4.12-4.13 are not formed, because, in opinion of the Company, the Board in pursuance its functions partly fulfils functions of Appointment and Wages committees indicated above. During extraordinary General meeting of the shareholders that took place on 18<sup>th</sup> of August, 2009, on the ground of provisions of Audit Law of the Republic of Lithuania and requirements stated by resolution № 1K-18 of Stock Trading Commission, Audit committee has been formed together with approving the members of the committee, with one as independent among them, as well as the Committee's working rules.</p>

<sup>10</sup> In case when collegial body as elected by General meeting of the shareholders is the Board, the recommendation regarding its independence with respect to regulatory bodies of the Company is applicable insofar, as it concerned with independence in relation with Chief-executive of the Company.

<sup>11</sup> Audit Law of the Republic of Lithuania (Žin., 2008, № 82-3233) settles the provision that the companies of public interest (including, but not limited, Joint Stock Companies that stocks are tradable in the market of Republic of Lithuania and (or) in market as regulated by any other member State, should form Audit Committee.



1.8. Main aim of the Committees is to increase effectiveness of the actions of collegial body and to warrant the decisions as being taken after proper consideration; to help organize activities in such way, that general conflicts of the interests couldn't make influence to decisions of collegial body. The Committees should act independently and generally as to submit recommendations to collegial body regarding the decision of collegial body, nevertheless, final decision should be taken by collegial body itself. Recommendation to form committees is not the aim to restrict the abilities of collegial body or to transfer it to committees. Collegial body remains as fully responsible for taking decisions within the range its own abilities.	No	Elected Audit committee is guided by the Rules of Audit committee; it observes the process of preparation of financial reports and also processing of the audit. Collegial bodies remain fully responsible for decisions taken within the range of their abilities and take final decisions.
1.9. The committees as created by collegial body should consist at least of three members. These Companies that have few members of collegial body can form the committees of two members only, as by exclusive order. The majority of the members of each committee should consist of independent members of collegial body. In case when Council of beholders is not formed by the Company, the committees of the wages and auditing should be formed exceptionally of consulting directors.  While deciding, what persons should be appointed as chairman and the members of the committee, the consideration should be taken on fact that the membership of the committee should be renewed and not to rely on certain people.	Yes	Audit Committee consists of 3 members and 1 member among them is independent.
1.10. The authorities of each created committee should be stated by collegial body itself. Each committee should exercise its individual duties as under stated authorities and regularly inform collegial body on its activities and results. Authorities of each of the committees as defining its role with pointing out its rights and liabilities should be declared at least once a year (as part of the information on management structure and practice, which the Company declares yearly). The Company by annual report, as provided yearly, should declare the reports of present committees concerning consistence, number of sessions, participations of the members at sessions during last year as well as main trends of its own activities. Audit committee should justify being satisfied with independence of processing the audit and briefly describe actions that were taken in order to draw such conclusion.	Yes	The Rules of Audit Committee were approved by General meeting of the shareholders. As mentioned the committee shall inform General meeting of the shareholders on its processing and the results.
1.11. In order to warrant self-sufficiency and impersonality of the committees, the members of collegial body, which are not members of the committee, should have ordinary right to participate at sessions of the committee only if invited by it. The committee can invite or request proper employees or the experts to participate at the session. The Chairman of each committee should have possibilities to communicate with the shareholders. The cases, when it should be done so, need to be included to Rules that regulate activities of the committee.	Yes	If necessary, the employees of the Company those are responsible for fields of activities being in consideration can participate at session of Audit committee. Necessary information is also submitted by them.
1.12. Appointment committee. 1.12.1. Main function of the Appointment committee are the following: 1) selects the candidates to vacant positions of the members of collegial body and recommends the collegial body to treat them. Appointment committee should valuate the balance of knowledge, skills and experience inside	No	Appointment committee is not formed at the Company (description: see 4.7).



<p>collegial body, to prepare description of functions and abilities that is necessary for the actual post, also to estimate the time that required for accomplishment of the undertaking. The Appointment committee also is able to valuate the candidates that are offered by the shareholders to be the members of collegial body;</p> <ol style="list-style-type: none"> <li>2) valuates structure, amount, consistence and processing of regulatory bodies regularly and submits recommendations to collegial body for striving them required changes;</li> <li>3) valuates knowledge, skills and experience of several directors regularly and inform collegial body on the following;</li> <li>4) pays proper attention to planning the succession;</li> <li>5) reviews the policy of regulatory bodies regarding election or appointment of supreme authority.</li> </ol> <p>1.12.2. The Appointment committee should consider offers provided by other persons including administration and the shareholders. When the questions are solved that concerned with Managing directors or the members of the Board (if collegial body as elected by General meeting of the shareholders is the Board), or supreme authority, the consultancies should be taken with Chief-executive of the Company, who has the right to submit proposals to Appointment Committee.</p>		
<p>1.13. Wages committee. 1.13.1. Main functions of Wages committee are the following:</p> <ol style="list-style-type: none"> <li>1) submits to collegial body for considering the offers regarding policy of the wages of the members of regulatory bodies and Managing directors. Such policy should include all forms of the wages, including fixed wage, systems of wages as dependent on results of labour, pensions' models and redundancy pay. The offers that concerned with systems of wages as dependent on results of the labour should be submitted herewith the recommendations in relation with intensions and valuating criterions, the aim of which is to match properly the wages of the members of regulatory bodies and managing directors of the Company with interests and long-term objectives of the shareholders as stated by collegial body of the Company;</li> <li>2) submits offers to collegial body regarding individual wages for Managing directors and the members of regulatory bodies of the Company in order they match the policy of the wages of the Company and appreciation these as persons. In order to process such functions, the committee should be fully informed on common rate that is received by managing directors and the members of regulative bodies of other related Companies;</li> <li>3) should warrant that individual wage settled for Managing director or for the member of regulatory bodies of the Company is well-proportioned with the wages of other Managing directors or members of regulatory bodies of the Company as well as of other employees of the Company;</li> <li>4) regularly supervises the policy of settling and members of regulatory bodies of the Company (as well as policy as grounded on actions);</li> <li>5) submits proposals to collegial body regarding proper forms of the work agreements with Managing directors and the</li> </ol>	No	Wages committee is not formed at the Company (description: see 4.7).

<p>members of regulatory bodies of the Company;</p> <p>6) helps the collegial body to supervise, whether the Company follows the Rules being in force regarding airing of information as concerned with the wages (particularly regarding policy of the wages being in effect and individual wages paid to directors);</p> <p>7) submits generic recommendations to Managing directors and the members of regulatory bodies regarding amount and structure of the wages for supreme authority (as accentuated by collegial body itself), studies the amount and structure of the wages of supreme authorities, according to relevant information that is provided by Managing directors and the members of regulatory bodies.</p> <p>1.13.2. In case when stimulation questions are necessary to be solved concerning transactions for assortment of the shares or other stimulating means concerned with the shares being applicable to directors or to other employees, the committee should do as follows:</p> <p>1) discuss general policy of application such stimulation means by paying most attention to such stimulation that is concerned with transactions for assortment of the shares and submitting proposals to collegial bodies in respect to it;</p> <p>2) analyse information on the concerned question that is provided by annual report of the Company and other documents intended for General meeting of the shareholder;</p> <p>3) submit proposals to collegial body regarding alternative to assortment transactions by signing the shares or to assortment transactions by purchasing the shares, by pointing out reasons and the results of such alternative provision.</p> <p>1.13.3. The Wages committee, while solving questions ascribed to its ability, should be interested in opinion at least of the Chairman of collegial body and (or) in opinion of Chief-executive of the Company, as concerns the wages of other Managing directors or the members of regulatory bodies of the Company.</p> <p>1.13.4. The Wages committee should inform the shareholders on processing its functions and participate at annual General meeting of the shareholders with the mentioned aim.</p>		
<p>1.14. Audit committee.</p> <p>1.14.1. Main functions of the Audit committee should be the following:</p> <p>1) watches integrity of financial information provided by the Company by paying most attention to availability and consistency of the methods of recording that used by the Company and its group (including criterions for consolidating the suits of financial reports of group of the Companies);</p> <p>2) reviews systems of inner control and management of risks at least once a year in order to warrant the main risks (including the risk as concerning following legislation and the rules being in effect) are stated and managed duly and information concerning them is disclosed;</p> <p>3) warrants effectiveness of the inner audit, alter alia, submits recommendations regarding selection, appointment, re-appointment or retirement of the manager of subdivision and regarding subdivision's budget; watches the state of reaction of</p>	Yes	<p>The Company follows these general recommendations. Main aim of Audit committee is supervising of the performance of audit of financial accountability of the Company and the order of submission of financial reporting and other financial information to concerned persons. Main function of the committee is systematically and comprehensively evaluation and stimulation of the effectiveness of management of the risks, control and supervision</p>



<p>administration of the Company in respect to conclusions and recommendations submitted by subdivision. If the Company has none function of inner audit, the need to set such function should be evaluated by the committee at least once a year.</p> <p>4) submits recommendations to collegial body regarding selection, appointment, re-appointment or retirement (such is exercised by General meeting of the shareholders) of outer audit undertaking and regarding agreement conditions with it. The committee should analyze situations, on the ground of which audit undertaking or the auditor should be retired as well as submit recommendations for actions as necessary in such case;</p> <p>5) watches the independence and impersonality of outer audit undertaking as it particularly important to inspect, whether the audit undertaking considers requirements regarding rotation of auditing partners; moreover, the amount of remuneration, which is paid by the Company to audit undertaking and similar matters should be checked. In order to prevent general conflicts of the interests, the committee, according to inter alia data concerning all wages that are paid by the Company and its group to audit undertaking and its system, that are declared by outer audit undertaking, should regularly maintain the character and scope of services meant as non-auditing. On the ground of principles and guidelines of recommendation of Commission 2002/590/EEC of 16<sup>th</sup> of May, 2002, the committee should settle and process official policy that defines types of non-auditing services, purchasing of which of auditing undertaking is: a) not allowable; b) allowable after analysis of the committee and 3) allowable without calling to committee;</p> <p>6) inspects effectiveness of processing outer audit and the state of reactions in respect to recommendations that are submitted by audit undertaking as by letter to authorities of the Company.</p> <p>1.14.2. All members of the committee should be provided by information regarding specific reporting financial and processing peculiarities. Administration of the Company should inform audit committee on accounting methods of important and odd transactions, when the accounting might be performed as by various means. In this case main attention should be paid to activities of the Company at offshore centres and (or) to activities being processed through bodies (organization) of special purpose as well as to justification of such activities.</p>		<p>processing as well as submission of the conclusions to General meeting of the Shareholders, Council of the beholder and to the Board for development of the objectives and tasks, risk management procedures and functioning of inner control</p>
<p>1.14.3. Audit committee should decide, whether the Chairman of collegial body, Chief-executive of the Company, Chief-financier (or supreme employees that are responsible for finance and for reporting) inner or outer auditors should participate at sessions (if yes, then when). The committee should have possibility to meet relevant persons, if necessary, without participating of Managing directors and the members of regulatory bodies.</p> <p>1.14.4. Effective working relations with administration should be assured to inner and outer auditors as well as absolute possibilities to communicate with collegial body. For such aim, audit committee should act as main instance for maintaining relations with inner and outer auditors.</p> <p>1.14.5. Audit committee should be informed on working programme of inner auditors; it should periodically receive inner auditing reports and summaries. Audit committee also should be informed on working programme of outer auditors; it should</p>		

<p>receive the report of audit undertaking, in which all relations between independent audit undertaking and the Company and its group should be described. The committee should receive the information in time concerning all auditing questions as related to the Company.</p> <p>1.14.6. Audit committee should inspect, whether the Company follows the Rules being in effect that regulate possibility of employees to submit the claim or anonymously report on suspicions as for important violations taken place at the Company (these are mostly reported to independent member of collegial body); audit committee should assure settling of the order of solving such questions proportionally and independently as well as for relevant further actions.</p> <p>1.14.7. Audit committee should submit to collegial body its activities' report at least once per six months as at a time, when annual and half-year reporting is being approved.</p>		
<p>1.15. Collegial body should perform assessment of its own activities each year. This should include assessment of structure of collegial body, labour organization and ability to work as a group, the assessment of each members of collegial body, effectiveness of the labour and abilities of the committee as well as assessment, whether collegial body has achieved stated objectives. At least once a year collegial body should declare ( as part of information that is annually declared by the Company regarding its management structure and practice) relevant information regarding inner organization and procedures by pointing out, which general changes have been influenced by assessment of activities as performed by collegial body.</p>	No	The Company has no assessment practice of Council of the beholders and of the Board.
<p><b>Principle V: Operating order of collegial bodies of the Company</b></p> <p><b>Operating order of supervisory and regulatory collegial bodies stated by the Company should warrant effective operating of these bodies, while taking decisions. as well as stimulate active cooperation between all bodies of the Company.</b></p>		
<p>5.1. Collegial supervisory and management bodies of the Company (the concept of <i>collegial bodies</i>, as in the principle, include both collegial supervisory and collegial regulatory bodies of the Company) are conducted by Chairmen of collegial bodies. The Chairman of collegial body is liable for qualified calling for meetings of collegial body. The Chairman should warrant giving relevant information to the members of collegial body regarding invocatory meeting and the schedule of the meeting. He should warrant proper guidance of meetings of collegial body also, as well as order and productive atmosphere during the meeting.</p>	Yes	Chairman of Council of the beholders conducts the meetings of Council of the beholders. Chairman of the Board conducts meetings of the Board of the Company.
<p>5.2. Meetings of collegial bodies of the Company should be held at respective time, i.e. periodically, according to schedule approved in advance. Each Company decides itself, what periodicity should be applied to meetings of collegial bodies, nevertheless, it is recommended to call them at such periodicity that continuous solving of general management questions of the Company shouldn't be interrupted. The meetings of Council of the beholders should be held at least once a quarter, and the meeting of the Board – at least once a month.<sup>12</sup></p>	Yes	Meetings of the Board according to schedule approved in advance are held monthly, moreover, extraordinary meetings are taking place. Meetings of Council of the beholders are held once per six months.
<p>5.3. The members of the collegial body on invocatory meetings should be informed in advance, in order they have the sufficient time to prepare for perfect considering of analyzed questions, where the discussion might take place, after which relevant decisions might be taken. All required material concerned with the schedule of the meeting should be submitted to members of</p>	Yes	All required material concerned with the schedule is sent by e-mail to all members of collegial bodies as in advance. The schedule is being



collegial body together with notice on invocatory meeting. The schedule shouldn't be changed or supplemented during the meeting, except of cases, when all members of collegial body participate at the meeting or, if some questions should be solved immediately as being important to the Company.		supplemented only in case, if all members participate at the meeting and they agree that question, as being urgent, should be immediately solved.
5.4. In order to coordinate actions of collegial bodies and assure effective process of taking the decisions, the Chairmen of supervisory and management collegial bodies should match the dates of calling meetings between themselves as well as the schedules; they should closely cooperate, while solving other questions regarding management of the Company. The meetings of Council of the beholders should be carried openly as available for members of the Board, particularly in cases, when questions solved at the meeting concern retirement, liabilities or settlement of the wage of the members of the Board.	Yes	The meetings of Council of the beholders of the Company are carried openly and the members of the Board can participate in them.

<sup>12</sup> The periodicity of the meetings of collegial bodies that is instituted by recommendations should be applied only in cases, when two additional collegial bodies, i.e. Council of the beholders and the Board, are formed at the Company. When single additional collegial body is formed at the Company, the periodicity of its meetings can be the same, as stated for Council of the beholders, i.e. once a quarter per year.

**Principle VI. Impartial approach of shareholders and the rights of shareholders**

**Management system of the Company should warrant all shareholders' impartial approach, including minor shareholders and foreigners. Management system of the Company should protect shareholders' rights.**

6.1. It is recommended, that the capital of the Company should be formed of only such shares that provide for their holders equal rights for voting, property, dividends as well as other rights.	Yes	The authorised capital of the Company is formed of ordinary nominal stocks that provide to their holders equal real and non-property rights.
6.2. It is recommended to settle conditions for the investors in advance, i.e. before purchasing the shares, as well as to familiarize with the rights that are provided by the shares as running now and issued before.	Yes	The Company provides information to investors and familiarize them with the rights that are provided by the shares as running now and issued before.
6.3. The consent <sup>13</sup> of General meeting of the shareholders should be given to transactions as being important for the Company and its shareholders, such as assignation, investment, soak and encumbrance of property of the Company. All shareholders should have equal possibilities to know and participate in taking decisions as being important to the Company, including approval of mentioned transactions.	Yes	The consent of General meeting of the shareholders is given to such transactions, the criterions of which are provided by Law on Joint Stock Companies of the Republic of Lithuania and by statute of the Company; with these transactions the shareholders of the Company get familiar in advance.
6.4. The procedures of calling and conducting the General meeting of the shareholders should provide equal possibilities to the shareholders to participate at the meeting; these procedures shouldn't violate rights and interests of the shareholders. Selected place, date and the time of General meeting of the shareholders shouldn't prevent the shareholders of active participations at the meeting.	Yes	General meeting of the shareholders of the Company is held on the ground of provisions of the Law on Joint Stock Companies and statute of the Company. All shareholders of the Company are informed on place, date and time of the meeting.

		Before General meeting of the shareholders takes place, all shareholders of the Company, as provided by Law on Joint Stock Companies and the statute of the Company, are provided with possibility to familiarize with material of the meeting, at the latest as before 10 days.
6.5. In order to warrant the right of the shareholders that live abroad to know information, if possibility exists, General meeting of the shareholders is recommended to declare the prepared material in advance, in website of the Company that is available publicly, not only in Lithuanian, but also in English and (or) in any other language. The minutes of General meeting of the shareholders after signing them and (or) taken decisions are recommended also being declared in website of the Company that is available publicly, not only in Lithuanian, but also in English and (or) in any other language. Concise scope of the documents might be declared in the website of the Company that is available publicly, in case if open declaration might affect Company or commercial secrets of the Company might be disclosed.	Yes	According to order, stated by Law on Joint Stock Companies of the Republic of Lithuania, not latter then before 10 days as General meeting of the shareholders takes place, prepared documentation, as for General meeting of the shareholders, is declared publicly in Vilnius Stock Exchange website that provides possibility to the shareholders to meet it publicly.

<sup>10</sup> The Law on Joint Stock Companies of the Republic of Lithuania (Žin., 2003, № 123-5574) taking of the decisions on investment, assignation, lease, soak, procurement, etc. of long-term property, which balance value is more then 1/20 of authorized capital of the Company, doesn't ascribe to ability of General meeting of the shareholders. Nevertheless, general transactions as important to the Company should be discussed at General meeting of the shareholders and receive its consent. Such action is not forbidden by the Law on Joint Stock Companies as well. However, in order not to encumber activities of the Company and to avoid unreasonably frequent consideration as taken place at the meetings, the criterions of important transactions could be settled by the Company itself, under which such transactions should be selected, such that need consent of the meeting. The Companies, while settling criterions of important transactions can be guided by criterions provided by clauses 3, 4, and 5, of part 4 of Article 34 of the Law on Joint Stock Companies, or move them with respect to particularity of their actions and intention not to interrupt continuous and effectual performance of the Company.

6.6. The shareholder should have possibilities to vote at the meetings, of no account as participating personally, or not. None difficulties should be provided to shareholders to vote in writing in advance by filling in common vote.	Yes	The shareholders of the Company have the right to participate at General meeting of the shareholders personally or through his representative, if such person has relevant authorization or the agreement for assigning voting rights is constructed with him, as after the order stated by legislation; the Company provides voting possibilities to shareholders by filling in common vote also, as provided by the Law on Joint Stock Companies of the Republic of Lithuania.
6.7. In order to increase possibilities of the shareholders to participate at the meetings, the Companies are recommended to apply modern technologies more, as they are the way for developing possibilities for the shareholders to participate at the meetings and vote at them by using electronic communication means. In such cases, safety of the transferred information should be assured and possibility to assess sameness of participating and	No	Implementation of the pointed means should need inadequate costs, in comparison with reliable benefit.



voting person should be implanted. Moreover, the Companies might provide possibility to the shareholders, particularly to these that live abroad, to watch General meetings of the shareholders by using modern technical means.		
<b>Principle VII: Avoidance and disclosure of the conflicts of interests</b>		
<b>Management structure of the Company should stimulate the members of regulatory bodies of the Company to avoid conflicts of the interests and assure effective and transparent mechanism of disclosure of conflicting interests of members of Company's regulative bodies.</b>		
7.1. The member of supervisory or management body of the Company should avoid situation, where his personal interests confront or might confront to interests of the Company. Nevertheless, if such situation has appeared, the member of supervisory or management body of the Company should report upon reasonable term to other members of the same body or to the body that has elected him, or to shareholders of the Company, on such conflicting situation of the interests by pointing out interests' character and, if possible, value.	Yes	The Company follows these recommendations.
7.2.		
7.3. The member of supervisory or management body of the Company should not confuse the property of the Company, disposition of which isn't discussed with the Company, with his own property or use the property or information, which he receives as member of the body of the Company, for his own benefit or for benefit of third person as without the consent of General meeting of the shareholders or without consent of other body of the Company being authorized by it.	Yes	
7.4.		
7.5. The member of supervisory or management body of the Company can transact with the Company as being the member of its body. He should report immediately such transaction (excluding lightweight transactions, because of minimal value or these that are transacted in pursuance of usual acting of the Company under standard conditions) in writing or orally, by entering this to the minutes of the meeting, to other members of the same body, or to the body that has elected him, or to shareholders of the Company. For transactions as provided by this recommendation, recommendation 4.5 is applicable also.	Yes	
7.4. The member of supervisory or management body of the Company should refrain from voting, when the decisions are taken on transactions or on other questions, to which he is related as by personal or material interest.	Yes	The Company follows the recommendation. The member of collegial body of the Company refrains from voting, when the decisions are taken on transactions or on other questions, to which he is related as by personal or material interest.
<b>Principle VIII: Wages' policy of the Company</b>		
<b>The order of wages' policy and of approval, review and declaration of the wages for directors should prevent possible conflicts of the interests and abuse, while settling the wages for directors; such order should warrant publicity and transparency of wages' policy of the Company as well as of wages for the directors.</b>		
8.1. The Company should declare the report of its wages' policy (hereinafter – wages' report), which should be clear and	No	The Company doesn't declare the wages, because these are

understandable easy. Such wages' report should be declared not only as a part of annual report of the Company, but it should be reported by website of the Company also.		not required by the legal acts. Nevertheless, average wages of the employees of the Company are reported by half-year and annual financial accountability of the Company.
8.2. By reporting on the wages, most attention should be paid to policy of the wages for directors for next year and, if applicable – for further financial years. The wages' reporting should express the development of wages' policy during the last financial year. Particular interest should be taken on general changes of wages' policy of the Company, in comparison with the last financial year.	No	The Company doesn't declare the wages, because these are not required by the legal acts.
8.3. The following minimal information should be declared by the wages' report: 1) proportion of variable and fixed components of wages for the directors and explication of it; 2) sufficient information on valuation criterions of the results of activities, on which the right to participate in transactions of assortment of the shares is based as well as the right of the shares or variable and fixed components of the wage; 3) the explanations, by what means selected criterions for assessment of the results of activities are useful for long-term interests of the Company; 4) explanation of the methods that are applied with the aim to assess, whether the criterions of assessment of the results of activities are met; 5) sufficiently detailed information concerning periods of suspension of paying the variable component of the wage; 6) sufficient information concerning relation of the wage and the results of activities; 7) main criterion of system of annual bonus or any other benefit received in not-money form, and explication of it; 8) sufficiently detailed information concerning policy of redundancy pays; 9) sufficiently detailed information on retention of the shares, as provided by clause 8.15. 10) sufficiently detailed information concerning content of similar groups of the Companies, which policy of settlement of the wages was analyzed, as with the aim to identify policy of settlement of the wages by related company; 12) description of main characteristics of additional pension assigned to directors or the schemes of early retirement on the pension; 13) information that is off-the-record in view of commercial activity should be absent in wages' report.	No	Under previously mentioned conditions the wages' policy, according to which wages' report should be prepared, is not approved by the Company.
8.4. The policy of the Company should be summarized and explained in wages' report, regarding conditions of agreements as concluded with Managing directors and the members of regulatory bodies of the Company. Inter alia, it should include information regarding the terms of agreements as concluded with Managing directors and the members of regulatory bodies of the Company, applicable terms of notice for leaving office and detailed information regarding redundancy and other pays, with respect to early termination of agreements with Managing directors and the members of regulatory bodies of the Company.	No	General information regarding pays and loans is declared publicly to the members of Council of the beholder and of the Board by annual reporting prospect.
8.5. All amount of the wage or other benefit that is provided to several directors during relevant financial year should be declared	No	The Company doesn't declare the wages, because these are



<p>is details by the wages' report. At least information regarding each person, which served as director at the Company at any time of financial years, should be provided by document, as provided by clauses 8.5.1-8.5.4.</p> <p>8.5.1. The following information concerning wage and (or) other official revenue should be provided:</p> <ol style="list-style-type: none"> <li>1) total amount of the wage that is paid or is payable to the director for the services, provided during last financial year, including, if applicable, participation money that are stated by General meeting of the shareholders;</li> <li>2) wage and privileges that were received of any Company as pertaining to the same group;</li> <li>3) wage that is paid as the part of profit and (or) bonus, and the reasons as why such bonus and (or) part of profit was given.</li> <li>4) if possible under legislation, each perceptible and additional wage that is paid to director for special services, that do not belong to natural functions of the director;</li> <li>5) compensation that was received or was paid to each Managing directors of the member of regulatory body that was retired during last financial year;</li> <li>6) total calculated value of the benefit that is meant as the wage provided in non-money form, if such benefit shouldn't be provided under clauses 1-5.</li> </ol> <p>8.5.2. The following information should be provided as concerned with the shares and (or) the right to participate in transactions for assortment of the shares, and (or) with any others systems of stimulation of the employees by the shares:</p> <ol style="list-style-type: none"> <li>1) number and applicable conditions of transactions for assortment of the shares, as offered by the Company, or delivered shares during last financial years;</li> <li>2) number of transactions for assortment of the shares that were realized during last financial years by pointing out number of the shares and realization price of each of transaction or value of participating in systems of stimulation of employees by shares at the end of financial year.</li> <li>3) number of transactions for assortment of the shares that were not realized at the end of financial year, realization price, realization date and main conditions of actualization of the rights;</li> <li>4) all changes of the conditions of present transactions for assortment of the shares towards next financial year.</li> </ol> <p>8.5.3. The following information should be provided concerning systems of additional pensions:</p> <ol style="list-style-type: none"> <li>1) when the scheme of pensions is of defined payouts, changes of the payouts as cumulated by directors according to scheme, in relevant financial year;</li> <li>2) when the scheme of pensions is of defined payouts, detailed information on contributions, which the Company paid or should pay for directors, in relevant financial year.</li> </ol> <p>8.5.4. The amounts should be provided that were paid by the Company or any daughter company or enterprise, as included to the suit of consolidated financial reports of the Company, as loans, early payoffs and bonds for each person, who served as directors at any time during relevant financial year, including outstanding amounts and the interest rate.</p>		<p>not required by the legal acts. Nevertheless, average wages of the employees of the Company are reported by half-year and annual financial accountability of the Company.</p>
<p>8.6. When variable components of the wage are provided by the policy of settlement of the wages, the Companies should set the limit of the amount of variable component of the wage. Fixed component of the wage should be sufficient in order the Company</p>	<p>Yes</p>	<p>In policy of the settlement of the wages the Company is guided by principle that the wages consist of variable and</p>

should not pay variable component of the wage in case, when the criteria of assessment of the results of activities are not met.		fixed components of the wage.
8.7. Assignment of variable components of the wage should depend on criteria of measurement of assessment of the results of activities that should be stated previously.	Yes	Variable component of the wage is calculated by the Company according to stated indicators of assessment of the working activities.
8.8. If variable component of the wage is assigned, the payment of the most part of the variable component of the wage should be delayed for particular time as matching reasonable criteria. The amount of variable component of the wage, which payment is delayed, should be stated according to relative value of variable component of the wage, in comparison with the fixed component of the wage.	Yes	Variable component of the wage is calculated by the Company according to stated indicators of assessment of the working activities.
8.9. The provision should be included to agreements with Managing directors or with members of regulatory bodies that should give the opportunity to the Company to return variable part of the wage that was paid on the ground of data that occurred as evidently false in future.	No	The provision contradicts with legislation of the Republic of Lithuania.
8.10. Redundancy pays should not exceed the settled amount or the amount of stated annual wages; they generally should not be major then the amount of variable part of the wage or its equivalent of two years.	Yes	The Company follows given clause.
8.11. Redundancy pays shouldn't be paid, if the work contract is terminated by reason of unsatisfactory work results.	Yes	If work contract is terminated by reason of unsatisfactory work results, redundancy pay is not paid.
8.12. Moreover the information should be disclosed as concerned with preparatory and the process of taking the decisions, by which the policy of the wages of the directors was stated. The information should include data, if applicable, regarding authority and consistence of the wages' committee, the names and surnames of the consultants as not concerned with the Company, which services were used in process of stating the policy of the wages, and also the role of General meeting of the shareholders.	No	
8.13. In case, when the wage is grounded on allocation of the shares, the right to the shares should be provided at least for three years from the moment of allocating the shares.	No	Such practice is not applied by the Company.
8.14. At least for three years after allocation of the shares, transactions for assortment of the shares or other rights to purchase the shares or receive remuneration as grounded on changes of price of the shares shouldn't be applied. Allocation of right for the shares and the right to practice transactions for assortment of the shares or other rights to purchase the shares or receive remuneration as grounded on changes of price of the shares should depend on criteria of measurement of assessment of the results of activities that should be stated previously.	No	Such practice is not applied by the Company.
8.15. After allocation of the shares, the directors should hold relevant numbers of the shares till the end of their tenure, subject to the need to cover any expenditure as concerned with procurement of the shares. Number of the shares that should be held should be fixed as, for example, it may amount to double value of annual wage (variable plus fixed parts).	No	Such practice is not applied by the Company
8.16. The transactions for assortment of the shares shouldn't be included to the wage of consulting directors or of the members of Council of the beholders.	No	Such practice is not applied by the Company
8.17. The shareholders and primarily institutional shareholders should be stimulated to participate at General meetings and vote		



regarding questions of settling the wages for the directors.		
8.18. The wages' policy and any other perceptible change of policy of the wages should be included to schedule of annual General meeting of the shareholders, without minimizing the role of the bodies being responsible for settling the wages for the directors. Wages' report should be submitted to the shareholders for voting at annual General meeting of the shareholders. The voting can be of mandatory or of advisory character.	No	The Company submits such information that is required by provisions of Stock Law of the Republic of Lithuania.
8.19. The shareholders by taking relevant decision at annual General meeting of the shareholders should accept the schemes, by which the directors are remunerated by the shares, by transactions for the assortment of the shares or by other rights to procure the shares, or being remunerated with respect of changes of prices of the shares, before application of them. The consent should concern with the scheme only, but the shareholders should not discuss regarding the benefit as grounded on the shares that was provided to several directors under the scheme. The shareholders by taking relevant decision at annual General meeting of the shareholders should also accept all general emendations of the conditions of scheme, before application of them. In these cases the shareholders should be informed on all conditions of the proposed emendations and also receive explanations about the effect of the proposed emendations.	Not relevant	The Company doesn't apply the schemes, under which the directors are remunerated by the shares, by transactions for the assortment of the shares or by other rights to procure the shares, or being remunerated with respect of changes of prices of the shares.
8.20. The consent of annual General meeting of the shareholders should be received on the following questions: 1) allocation of the wages for the directors on the ground of share grounded schemes, including transactions for assortment of the shares; 2) evaluation of maximal number of the shares and general conditions of the order of allocation of the shares; 3) the period, during which the transactions for the assortment might be realized; 4) Conditions of settling the changed price of realization of each further transactions for assortment of the shares, if such is allowed by legislation; 5) all other long-term schemes of stimulation of the directors that are not offered for all other employees of the Company under same conditions; Annual General meeting of the shareholders should define the final term, during which the body that is responsible for wages of the directors might assign compensations for answerable directors, of types that are named by the clause.		
8.21. The shareholders should also accept each assortment model with the discount, under which the rights are given to sign the shares at lower market price, which is valid on the day when stating the price, or at average market price that was stated few days before as stating realization price, if national legislation and the statute of the Company allows to do so.		
8.22. Clauses 8.19 and 8.20 should not be applied to schemes, in which the participation is offered to employees of the Company under similar conditions, or to employees of any other daughter enterprise that have the right to participate in the scheme, which was approved by annual General meeting of the shareholder.		
8.23. Before annual General meeting of the shareholders, where the decision provided by clause 8.19 is intended to be solved, the shareholders should have possibility to know the project of the decision and the informational report as concerned with it (these documents should be published by the website of the Company).		

<p>All regulatory text should be provided by this report regarding all schemes of the wages as grounded by shares, or description of general conditions of these schemes as well as names and surnames of the participants of the schemes. The relation of the schemes and general policy of the wages for the directors should be pointed out in the report also. Clear reference to the scheme should be provided by the project of the decision, or the summary of general conditions of the scheme. The information should be provided to shareholders also, how the Company plans to source the shares that are required for development of liabilities as in accordance to stimulation schemes: there should be pointed clearly, whether the Company plans purchasing required shares at market, storing them or issuing new shares. Also review should be provided on expenditure that shall suffer the Company for predictable application of the scheme. Information that is provided by the clause should be published by website of the Company.</p>		
<p><b>Principle IX: The role of interests' holders in scope of management of the Company</b></p>		
<p>Management system of the Company should recognize the rights of interests' holders as stated by legislation, it should stimulate active cooperation between the Company and interests' holders with the aim of development of wealth of the Company, working places and financial stability. Within context of such principle the concept of <i>interests' holders</i> includes investors, employees, creditors, suppliers, clients, local community and any other persons as having interests for actual Company.</p>		
<p>9.1. Management system of the Company should assure and respect such rights of interests' holders that are protected by legislation.</p>	<p>Yes</p>	<p>Management system of the Company assures that the rights of the interests' holders that provided by legislation shouldn't be violated. Employees of the Company and producers of milk present the most part of the shareholders of the Company.</p>
<p>9.2. Management system of the Company should allow to interests' holders to participate in Company's management process according to order stated by legislation. The examples of participation of interests' holders in Company's management might be as follows: collective participation of the employees, while taking decisions as important to the Company, consultancies with the stable of employees on management questions and any other questions of the Company; participation of employees in authorized capital of the Company, inclusion of creditors to management of the Company, in case of insolvency of the Company, etc.</p>		
<p>9.3. If the interests' holders participate in management process of the Company, they should be allowed to get required information.</p>		
<p><b>Principle X: Disclosure of information</b></p>		
<p>Management system of the Company should warrant, that information concerning all perceptible questions of the Company, including financial situation, activities and management of the Company is disclosed accurately and timely.</p>		
<p>10.1. The Company should disclose the following information:  1) processing of the Company and its financial results;  2) objectives of the Company;  3) persons that have packet of shares of the Company and owns it on the ground o proprietorship;  4) members of supervisory and management bodies of the Company, Chief-executive of the Company and their wages;</p>	<p>Yes</p>	<p>Information provided by the recommendation is disclosed by annual and intermediary reports, reports on general events of the Company as well as by financial accountabilities of the</p>



<p>5) possible and supposed general risk factors;</p> <p>6) transactions of the Company and concerned persons as well as transactions that are transacted beyond running natural activities of the Company;</p> <p>7) main questions concerning the employees and others interests' holders;</p> <p>8) management structure and strategy of the Company.</p> <p>The list is meant as minimal and the Companies are recommended not to limit themselves only by disclosing information, which is provided by the list.</p> <p>10.2. While disclosing information provided by clause 4 of recommendation 10.1, the Company is recommended, that which patronize with respect to other Companies, to disclose information regarding all consolidated results of Companies' group.</p> <p>10.3. While disclosing information provided by clause 4 of recommendation 10.1, it is recommended to submit information regarding experience of the members of supervisory and management bodies and of Chief-executive of the Company, their qualification and potential conflicts of the interests that might influence their decisions. Also is recommended to disclose the wages or other received remuneration of the members of supervisory and management bodies and Chief-executive of the Company, as it provided by principle VIII in more details.</p> <p>10.4. While disclosing information provided by clause 7 of recommendation 10.1, it is recommended to disclose information on relationships between the Company and the interests' holders, such as employees, creditors, supplies, local community, including policy of the Company with respect to human resources, programmes of participating of employees in authorized capital of the Company, etc.</p>		<p>Company. Such information is published with the help of system for providing the information of the Stock Exchange. After disclosure of general events, information with wider comments is additionally published by mass-media.</p>
<p>10.5. Information should be disclosed by such means that none of the shareholders or the investors is discriminated with respect to the means and scope of receiving the information. Information should be disclosed to all people at the same time. It is recommended, the reports concerning general events should be published as before or after trading session of Vilnius Stock Exchange, in order all shareholders of the Company and the investors have the same possibilities to familiarize with information as well as take relevant investments' decisions.</p>	<p>Yes</p>	<p>Information concerning Company is provided with the help of the system for providing information that is used by Vilnius Stock Exchange; information is published in Lithuanian and also in English for possible extent. After receiving information Vilnius Stock Exchange publishes it within own website and trading system and by such means all people can reach the information at the same time. Moreover, the Company endeavours to publish information before and after Vilnius Stock Exchange trading sessions and provide it to all markets that are trading Company's Stocks. The information that might have influence on the price of the issued stocks isn't disclosed by the Company by comments, interviews or by</p>