

Žemaitijos pienas AB

Approval of responsible persons

25 February 2011

Telšiai

Regarding drafting of financial statement for the year ended 31 December 2010 Following the Article No.22 of Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional approved by Securities Commission of the Republic of Lithuanian we, Algirdas Pažemeckas, General Director And Dalia Geciene, Chief Accountant, hereby confirm that, to the our knowledge, the attached JSC “Žemaitijos Pienas” Consolidated Interim Financial Statements for the year of 2010 prepared in accordance with International Financial Reporting Standards are true and fairly present assets, liabilities, financial position, profit or loss of JSC “Žemaitijos Pienas” group consolidated companies.

APPENDIX:

Interim Condensed Consolidated Financial Statement for the twelve months of 2010.

General Director



Algirdas Pažemeckas

Chief Accountant



Dalia Geciene



AB „ŽEMAITIJOS PIENAS”

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2010**

Balance sheets

	Group	
	As of 31 December 2010	As of 31 December 2009
ASSETS		
Non-current assets		
Intangible assets	23	56
Property, plant and equipment	65,357	78,007
Investment property		-
Available – for – sale investments	4	4
Investments into subsidiaries	-	-
Non-current receivables	3,760	974
Deferred income tax asset	1,605	1,703
Total non-current assets	70,749	80,743
Current assets		
Inventories	62,081	37,871
Prepayments	640	453
Trade receivables	28,046	24,692
Receivables from subsidiaries	-	-
Receivables from other related parties	8,313	4,637
Other receivables	6,542	3,030
Deposits	5,000	6,161
Cash and cash equivalents	8,766	24,629
Total current assets	119,388	101,473
Total assets	190,137	182,216

Balance sheets (cont'd)

	Group	
	As of 31 December 2010	As of 31 December 2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity attributable to equity holders of the parent		
Share capital	48,375	48,375
Legal reserve	4,838	4,838
Reserve for one's shares formation	10,000	-
Retained earnings	56,768	50,465
	119,981	103,678
Minority interest	1,952	2,626
Total shareholders' equity	121,933	106,304
Non-current liabilities		
Grants received	2,678	3,200
Long-term loans from related parties	8,838	24,474
Financial lease obligations	6,575	11,249
Liabilities arising from deferred profit tax	784	542
Other current liabilities	1,879	1,867
Total non-current liabilities	20,754	41,333
Current liabilities		
Current portion of non-current loans	1,670	1,158
Current portion of non-current financial lease obligations	4,673	5,107
Trade payables	24,770	17,996
Payables to subsidiaries	-	-
Payables to other related parties	1	259
Income tax payable	2,886	1,045
Other current liabilities	13,450	9,015
Total current liabilities	47,450	34,580
Total liabilities and shareholders' equity	190,137	182,216

Income statements

	Group		Group	
	As of 31 December 2010	As of 31 December 2009	01 October 2010 - 31 December 2009	01 October 2009 - 31 December 2009
Sales	433,692	372,825	118,463	94,117
Cost of sales	(343,991)	(303,021)	(95,665)	(74,990)
Gross profit	89,701	69,804	22,798	19,127
Operating expenses	(64,454)	(52,172)	(8,757)	(10,239)
Other operating income, net	(2,264)	(2,080)	(1,336)	74
Profit from operations	22,983	15,552	12,705	8,962
Financial and investment activities	215	(1,255)	(79)	14
Profit before income tax	23,198	14,297	12,626	8,976
Income tax	(3,851)	(3,028)	(2,800)	(2,559)
Net profit	19,347	11,269	9,826	6,417

Statements of changes in equity

Group	Attributable to shareholders of the Company						Total
	Share capital	Legal reserve	Reserve for one's shares formation	Retained earnings	Minority interest		
Balance as of 31 December 2008	48,375	4,838	-	39,269	92,482	2,553	95,035
Net profit for the year	-	-	-	11,196	11,196	73	11,269
Balance as of 31 December 2009	48,375	4,838	-	50,465	103,678	2,626	106,304
2009 correct by retrospective method				(4)	(4)	-	(4)
Dividends, tantiemes paid				(2,460)	(2,460)	-	(2,460)
Liquidation of subsidiaries				(523)	(523)	(731)	(1,254)
Reserve for one's shares formation			10,000	(10,000)	-	-	-
Net profit for the year	-	-	-	19,290	19,290	57	19,347
Balance as of 31 December 2010	48,375	4,838	10,000	56,768	119,981	1,952	121,933

Cash flow statements

	Group	
	As of 31 December 2010	As of 31 December 2009
Cash flows from (to) operating activities		
Net profit	19,347	11,269
Adjustments for non-cash items:		
Depreciation and amortization	18,802	17,868
Amortization of grants received	(522)	(957)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(99)	(-)
Result from financial and investment activities	252	1,182
Decrease(increase) values of receivables	9	2
Decrease (increase) values of inventories	(1,572)	(453)
Impairment of receivables	-	-
Expenses arising from the liquidation of subsidiaries	(1,254)	124
Income tax expenses	3,851	3,028
Other non-cash (income) expenses	11	(2,286)
	38,825	29,777
Changes in working capital:		
Decrease in inventories	(22,638)	25,117
(Increase of) Receivables	(7,039)	413
Decrease in prepayments and other current assets	(187)	127
Decrease in other receivables	(3,116)	5,337
Increase in trade payables, payables to related parties and payables to subsidiaries	6,515	(11,194)
Interest (paid)	(486)	(1,903)
Deposits	1,161	(6,161)
Increase (decrease) in other current liabilities	2,679	2,873
Net cash flows from operating activities	15,714	44,386
Cash flows from (to) investing activities		
(Acquisition) of property, plant and equipment and intangible assets	(6,619)	(10,361)
Disposal of property, plant and equipment	585	408
Proceeds from sales of investments	(-)	(4)
Repayment of loans granted	2,052	2,311
Loans (granted)	(5,137)	(1,337)
Interest received	297	772
Net cash flows (to) investing activities	(8,822)	(8,211)

(Cont'd on the next page)

Cash flow statements (cont'd)

	Group	
	As of 31 December 2010	As of 31 December 2009
Cash flows from (to) financing activities		
Dividends , tantiemes (paid)	(2,460)	126
Cash, (transferred) during reorganization		
Loans received	15,538	-
(Repayment) of loans	(30,662)	(17,442)
Financial lease (payments)	(5,108)	(3,279)
Sponsorship Received	-	-
Other revenue from financial activities	(63)	-
		-
Net cash flows (to) financial activities	(22,755)	(20,595)
Net increase (decrease) in cash and cash equivalents	(15,863)	15,580
Cash and cash equivalents at the beginning of the year	24,629	9,049
Cash and cash equivalents at the end of the year	8,766	24,629

Notes to the financial statements

1. General information

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

As of 31 December 2010 and 2009 the share capital of the Company was LTL 48.375 thousand, which consisted of 48.375 thousand ordinary shares with a normal value of LTL 1 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2009 and 31 December 2010, the Company also had no its own shares.

As of 31 December 2010 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Total equity holding 2009 12 31	Total equity holding 2009 12 31	Main activities
ABF „Šilutės Rambynas“	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	10.878	12,538	12,871	Cheese production
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	12 %	100%	60	482	437	Milk collection services
SIA "Muižas piens"	Skaistkalnes g. 1, Rīga, Latvija	32 %	-	4			Retail, wholesale trade

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių pienas is performing nearly 100% of their sales to the Company they are considered subsidiaries. ABF „Šilutės Rambynas“ is considered a subsidiary because AB Žemaitijos Pienas controls its activities and controls more than 50% of its shares.

As of 31 December 2010, the number of employees of the Group was 1552 (as of 31 December 2009 – 1528).

Main indicators of the Company' s" performance :

Sales, thousand LTL	433,692
Gross profit, thousand LTL	89,701
EBITDA, thousand LTL	42,486
Current ratio (at the end of the period)	2,904
Book value per share (at the end of the period)	2,52

2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the period ended 31 December 2010 are as follows:

Basis of preparation

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

Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3,4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

Principles of consolidation

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

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

The purchase method of accounting is used for acquired businesses.

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

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

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

Intangible assets

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

Property , plant and equipment

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

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

Buildings	20 - 40 years
Machinery and equipment	5 years

Vehicles and other equipment 4 - 10 years

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

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

Investment property

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

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

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

Inventories

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

Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits.

Financial assets and financial liabilities

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

Investments

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

Receivables and loans granted

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

Loans received

Loan costs are expensed as incurred.

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

Financial and operating leases

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

Grants

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

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

Income tax

Income tax is calculated based on the Lithuanian tax legislation

On the year 2010 the income tax applied to the companies in the Republic of Lithuania is 15%.

Revenue recognition

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

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

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

Expense recognition

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

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

Foreign currencies

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

Guarantees

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

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

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

Offsetting

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

3. Segment information

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

	Group	
	As of 31 December 2010	As of 31 December 2009
Sales		
Lithuania	248,935	210,457
Other Baltic States and CIS countries	112,876	74,846
Other European countries	63,666	73,041
USA	126	2,295
Other	8,089	12,186
	433,692	372,825

4. Inventories

	Group	
	As of 31 December 2010	As of 31 December 2009
Raw materials	12,385	11,346
Finished goods and work in process	51,512	29,367
Goods for resale	887	1,490
Increase (decrease) values of inventories	(2,703)	(4,332)
	62,081	37,871

5. Loans' repayment terms:

	31 December 2010
2011 m.	1,670
2012 m.	8,420
2013 m.	418
2014 m.	-
Total Loans on 31 December 2010	<u><u>10,508</u></u>

31 December 2010, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	<u>31 December 2010</u>
Loan currency:	
Euro	10,508
Litas	-
	<u><u>10,508</u></u>

6. Subsequent events

Subsequent events was not after was make consolidated financial statements.