

AB Vilkyškių Pieninė

Consolidated financial
statements for 2009

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Company details

AB Vilkyškių Pieninė

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Registered office: LT-99369 Vilkyškiai, Vilkyškių sen., Pagėgių r. sav., Lithuania

Board

Gintaras Bertašius (Chairman)

Sigitas Trijonis

Rimantas Jancevičius

Vilija Milaševičiūtė

Linas Strėlis

Andrej Cyba

Management

Gintaras Bertašius, General Director

Sigitas Trijonis, Technical Director

Rimantas Jancevičius, Stock Director

Arvydas Zaranka, Production Director

Arminas Lunia, Sales Director

Vilija Milaševičiūtė, Finance Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas

AB Bankas Snoras

AB Bankas Swedbank

Management's statement on consolidated financial statements

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


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

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

Vilkyškiai, 29 March 2010

Management:

Gintaras Bertašius
General Director





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

We have audited the accompanying consolidated financial statements (“consolidated financial statements”) of AB Vilkyškių Pieninė (“the Company”), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the explanatory notes comprising a summary of significant accounting policies and other explanatory notes, set out on pages 12-52.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for qualified opinion

The Company failed to comply with certain financial ratios required by bank loan agreements and has not classified part of payable loans to current liabilities in order to conform to International Financial Reporting Standards, IAS 1, 'Presentation of financial statements'. If this part of loans payable was classified to current liabilities, the non-current part of interest-bearing loans and lease liabilities would be decreased by LTL 16,983 thousand and the current portion of interest bearing loans and lease liabilities would be increased by LTL 16,983 thousand as at 31 December 2009.

Qualified opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the *Basis for qualified opinion* paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

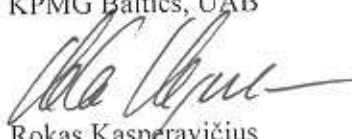
Emphasis of matter

Without further qualifying our opinion we draw your attention to Note 15 to the consolidated financial statements. As at 31 December 2009 the Company has not complied with certain bank loan covenants. The ability of the Company to continue as a going concern is dependent on negotiations with the bank not to demand earlier repayments of the loan due to breach of covenants. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The consolidated financial statements do not include any adjustments that might result should the Company not be able to continue as a going concern.

Report on legal and other regulatory requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2009, set out on pages 53-99 of the consolidated financial statements, and have not noted any material inconsistencies between the financial information included in the Consolidated Annual Report and the consolidated financial statements for the year ended 31 December 2009.

Klaipėda, 29 March 2010
KPMG Baltics, UAB



Rokas Kasperavičius
Partner
Certified Auditor

Consolidated statement of financial position

For the year ended 31 December 2009

Thousand Litas	Note	2009	2008
Assets			
Property, plant and equipment	8	66,248	71,740
Intangible assets	9	608	418
Goodwill	9	23,875	23,875
Long-term receivables	10	1,421	1,233
Total non-current assets		92,152	97,266
Inventories	11	18,512	20,601
Trade and other receivables	12	14,820	18,584
Prepaid income tax		-	1,117
Cash and cash equivalents	13	395	195
Total current assets		33,727	40,497
Total assets		125,879	137,763
Equity			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		8,624	8,523
Retained earnings		7,048	-81
Total equity attributable to the shareholders of the Company	14	39,011	31,781
Non-controlling interest		88	55
Total equity	14	39,099	31,836
Liabilities			
Interest-bearing loans and lease liabilities	15	39,266	48,946
Government grants	16	8,203	8,894
Deferred tax liabilities	17	2,301	1,591
Total non-current liabilities		49,770	59,431
Interest-bearing loans and lease liabilities	15	15,990	21,601
Trade and other payables, including derivatives	18	21,020	24,895
Total current liabilities		37,010	46,496
Total liabilities		86,780	105,927
Total equity and liabilities		125,879	137,763

The notes, set out on pages 12-52, are an integral part of the consolidated financial statements.

Consolidated income statement

For the year ended 31 December 2009

Thousand Litas	Note	2009	2008
Revenue	1	159,318	151,981
Cost of sales	2	-134,289	-154,338
Gross profit (loss)		25,029	-2,357
Other operating income, net		-201	1,020
Distribution expenses	3	-7,048	-1,130
Administrative expenses	4	-6,528	-7,228
Operating result		11,252	-9,695
Finance income		66	528
Finance costs		-3,346	-4,249
Net finance costs	5	-3,280	-3,721
Profit (loss) before tax		7,972	-13,416
Income tax expense	6	-1,249	1,447
Net profit (loss) for the year		6,723	-11,969
Attributable to:			
Shareholders of the Company		6,690	-11,916
Non-controlling interest		33	-53
Net profit (loss)		6,723	-11,969
Basic earnings per share (Litas)	7	0.56	-1.06
Diluted earnings per share (Litas)	7	0.56	-1.06

The notes, set out on pages 12-52, are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2009

Thousand Litas	Note	2009	2008
Net profit (loss)		6,723	-11,969
Other comprehensive income for the year			
Increase (decrease) of revaluation reserve		-	-
Effect of income tax		540	-409
Other comprehensive income for the year, net of income tax		540	-409
Total comprehensive income		7,263	-12,378
Attributable to:			
Shareholders of the Company		7,230	-12,325
Non-controlling interest		33	-53
Total comprehensive income		7,263	-12,378

The notes, set out on pages 12-52, are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

Equity, attributable to the shareholders of the Company

Thousand Litas	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2008		9,353	-	8,420	935	13,442	32,150	42	32,192
Comprehensive income for the period									
Net profit (loss)		-	-	-	-	-11,916	-11,916	-53	-11,969
Other comprehensive income									
Allocated from reserves		-	-	-423	-	423	.	-	-
Decrease of revaluation reserve, net of tax		-	-	-409	-	-	-409	-	-409
Total other comprehensive income		-	-	-832	-	423	-409	-	-409
Total comprehensive income for the period		-	-	-832	-	-11,493	-12,325	-53	-12,378
Contributions by and distributions to owners recognised directly in equity									
Share issue		2,590	11,396	-	-	-	13,986	-	13,986
Dividends		-	-	-	-	-2,030	-2,030	-	-2,030
Total contributions by and distributions to owners		2,590	11,396	-	-	-2,030	11,956	-	11,956
Changes in the Group without losing control									
Other changes in the Group		-	-	-	-	-	-	66	66
Total changes in the Group		-	-	-	-	-	-	66	66
Total contributions by and distributions to owners		2,590	11,396	-	-	-2,030	11,956	66	12,022
Balance at 31 December 2008	14	11,943	11,396	7,588	935	-81	31,781	55	31,836

Consolidated statement of changes in equity (continued)

Thousand Litas	Equity attributable to shareholders of the Company							Non-controlling interest	Total equity
	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total		
Balance at 1 January 2009		11,943	11,396	7,588	935	-81	31,781	55	31,836
Comprehensive income for the period									
Net profit (loss)		-	-	-	-	6,690	6,690	33	6,723
Other comprehensive income									
Allocated from reserves		-	-	-439	-	439	-	-	
Increase of revaluation reserve, net of tax		-	-	540	-	-	540	-	540
Total other comprehensive income		-	-	101	-	439	540	-	540
Total comprehensive income for the period		-	-	101	-	7,129	7,230	33	7,263
Contributions by and distributions to owners:									
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Changes in the Group without losing control									
Other changes in the Group		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance at 31 December 2009	14	11,943	11,396	7,689	935	7,048	39,011	88	39,099

The notes, set out on pages 12-52, are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

Thousand Lit	Note	2009	2008
Cash flows from operating activities			
Net profit (loss)		6,723	-11,969
Adjustments:			
Depreciation of property, plant and equipment	8	6,471	5,946
Amortisation of intangible assets	9	260	93
Amortisation of grants	16	-723	-387
(Profit) loss on disposal of property, plant and equipment		904	379
Income tax expense		1,249	-1,447
Interest expenses, net		3,079	3,816
		17,963	3,569
Change in inventories		2,089	-1,525
Change in long-term receivables		-188	-
Change in trade and other receivables		4,882	-336
Change in trade and other payables		-3,875	7620
		20,871	2,190
Paid interest		-3,079	-3,816
Paid income tax		-	-2,235
Net cash flows from (used in) operating activities		17,792	-3,861
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	-2,402	-10,520
Acquisition of intangible assets	9	-450	-312
Proceeds from sale of property, plant and equipment		519	431
Proceeds from sale of investments		-	4,297
Acquisition of investment, net of cash acquired		-	-30,028
Net cash flow used in investing activities		-2,333	-36,132

Consolidated statement of cash flows (continued)

For the year ended 31 December.

Thousand Litas	<u>Note</u>	<u>2009</u>	<u>2008</u>
Cash flows from financing activities			
Loans received		515	37,682
Repayment of borrowings		-15,806	-11,824
Proceeds from issue of share capital		-	13,986
Dividends paid		-	-2,030
Capital grants received	16	<u>32</u>	<u>1,319</u>
Net cash from (used in) financing activities		<u>-15,259</u>	<u>39,133</u>
Increase (decrease) in cash and cash equivalents		200	-860
Cash and cash equivalents at 1 January		<u>195</u>	<u>1,055</u>
Cash and cash equivalents at 31 December	13	<u>395</u>	<u>195</u>

The notes, set out on pages 12-52, are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Background information

The Group consists of the following companies:

- Vilkyškių Pieninė, the parent company (hereinafter – the Company or the Group)
- AB Modest, the subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, the subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė). AB Kelmės Pieninė directly controls 100% of the shares of UAB Kelmės Pieno Centras.

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

AB Vilkyškių Pieninė is a Lithuanian company listed on the Vilnius Stock Exchange. As at 31 December 2009 the Company's shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in Litas	Total value in Litas
Gintaras Bertašius	6,016,506	1	6,016,506
SEB clients	2,483,577	1	2,483,577
UAB FMĮ Orion Securities clients	1,747,644	1	1,747,644
Linas Strėlis	1,015,000	1	1,015,000
Other	680 273	1	680,273
Total	11,943,000	1	11,943,000

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

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

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

In 2008 the Company acquired one more subsidiary - AB Kelmės Pieninė, which is engaged in milk processing and production of dairy products. The Company holds 99% voting rights of AB Kelmės Pieninė. AB Kelmės Pieninė specialises in production of fresh dairy products.

As at 31 December 2009 the Group had 735 employees (2008 : 738).

Notes to the consolidated financial statements

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

The consolidated financial statements are presented in thousands Litas (tLTL). Litas (LTL) is the legal currency of Lithuania and considered to be the functional currency of the Company. Accounting records are maintained in accordance with Lithuanian laws and regulations. The consolidated financial statements are prepared on the historical cost basis, except for:

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

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

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

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

Basis of consolidation

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Foreign currency transactions

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

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

Statement of financial position

Property, plant and equipment

Items of plant and equipment, including assets under finance lease terms, are stated at cost less accumulated depreciation and impairment losses. The cost includes expenses incurred in relation to acquisition of an asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and an appropriate proportion of production overheads.

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

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

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

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

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property, plant and equipment under equity. However, if such an increase in value reverses a revaluation decrease of the same asset previously recognised in profit or loss, then it is recognised in profit or loss. Depreciation is calculated on the amount which is equal to the acquisition cost/revalued amount net of residual value of the asset.

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Property, plant and equipment (continued)

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

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

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

Leased assets

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

Intangible assets

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

Goodwill

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

Inventories

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

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

Financial assets and liabilities

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Financial assets and liabilities (continued)

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Financial assets and liabilities (continued)

Fair value

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

Interest-bearing borrowings

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

Borrowing costs

Borrowing costs on loans used for acquisition of property, plant and equipment are recognised as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment starting from 1 January 2009. During the year 2009 the Company did not incur any borrowing costs, which were related to property, plant and equipment. Other borrowing costs are recognised in the income statement.

Trade and other payables

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

Derivative financial instruments

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Derivative financial instruments (continued)

Separable embedded derivatives

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

Other non-trading derivatives

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

Cash and cash equivalents

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Impairment

Financial assets

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

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

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

Calculation of recoverable amount

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

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

Reversal of impairment losses

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Impairment (continued)

Non-financial assets

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

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

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

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

Provisions

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

Employee benefits

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Statement of financial position (continued)

Finance and operating leases

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

The Company as a lessee

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

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

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

Dividends

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

Government grants

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

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

Income statement

Revenue

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Income statement (continued)

Cost of sales

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

Distribution and administrative expenses

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

Other operating income and costs

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

Financial income and expenses

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

Interest income is recognised in the income statement as it accrues. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Income tax

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

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

Standard profit tax rate applied to the companies in the Republic of Lithuania in 2009 is 20%, in 2008 - 15%. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 15% tax rate has been established for an indefinite period starting 1 January 2010. Tax losses can be carried forward for indefinite period if the Company does not change its activities due to which these losses incurred, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Notes to the consolidated financial statements

Significant accounting policies (continued)

Income statement (continued)

Income tax (continued)

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

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

Earnings per share

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

Segment reporting

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

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

The applied accounting policies coincide with the accounting policies of the previous year, except that the Group has implemented those new/revised standards and their interpretations, which are mandatory for financial periods starting on or after 1 January 2009 and which are relevant to the Group's activity:

The Group applies the revised IAS 1 *Presentation of Financial Statements* (2007), effective as of 1 January 2009. Due to this, all owner-related changes in equity are presented in the statement of changes in equity, whereas not owner related changes in equity are presented in the statement of comprehensive income. The comparative information was restated to comply with the amendment of the Standard. As the change in the accounting principle affects only the presentation aspect, there is no influence to the earnings per share.

Amendments to IFRS 4 *Insurance Contracts* and IFRS 7 *Financial instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Company to the extent applicable to the Group's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard.

The revised IAS 23 *Borrowing Costs* (mandatory for financial years starting 1 January 2009) has been applied as of the date stated in the Standard. The Standard does not have any influence as during 2008 and 2009 the Company did not incur any borrowing costs which should be capitalised.

IFRS 8 "Operating segments" is applicable for annual periods starting on or after 1 January 2009. The new Standard requires disclosing more information on segments based on internal reports which are reviewed by key management on a regular basis seeking to evaluate information about each segment considering whether it is a business or a geographical segment. The Group applies IFRS 8 as of the date stated in the Standard.

Approved, but not effective standards yet

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

- Amended IFRS 3 "Business Combinations"

Amendment to IFRS 3 is effective for annual periods beginning on or after 1 July 2009. The Standard's scope of application was amended and the description of the purpose was expanded. The management has not yet estimated the effect of the amended IFRS 3 on the financial statements.

- Amended IAS 27 "Consolidated and separate Financial Statements"

Amendment to IAS 27 is effective for annual periods beginning on or after 1 July 2009. In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The management has not yet estimated the effect of the amended IAS 27 on the financial statements.

Notes to the consolidated financial statements

Significant accounting policies (continued)

Approved, but not effective standards yet (continued)

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

Amendment to IAS 32 is effective for annual periods beginning on or after 1 July 2009. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments.

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

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. Amended IAS 39 is effective for annual periods beginning on or after 1 July 2009. Management has not yet evaluated an impact of the amendments to IAS 39 on the Company's financial statements.

■ IFRIC 12 "Service concession arrangements"

The Interpretation provides guidance to private sector entities on certain recognition and measurement issues.

IFRIC 12 is effective for first annual periods beginning on or after 1 April 2009. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.

■ IFRIC 15 "Arrangements for the construction of Real Estate"

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

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

■ IFRIC 16 "Hedges of a Net Investment in Foreign Operation"

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

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

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

Notes to the consolidated financial statements

Significant accounting policies (continued)

Approved, but not effective standards yet (continued)

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

- IFRIC 18 "Transfers of Assets from Customers"

IFRIC 18 is effective prospectively for transfers of assets from customers received on or after 1 July 2009. The Interpretation applies to the accounting by entities that receive contributions of property, plant and equipment from their customers. The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the contributed item meets the criteria for property, plant and equipment in IAS 16, *Property, Plant and Equipment*. The Interpretation also requires the entity to recognize the amount as revenue; the timing of the revenue recognition will depend on the facts and circumstances of the particular agreement. The Interpretation is not relevant to the Company's financial statements as the Company does not receive in scope asset contributions from its customers.

Contingencies

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

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

Subsequent events

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

Critical accounting estimates and assumptions

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Critical accounting estimates and assumptions (continued)

Impairment losses on property, plant and equipment

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

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

Impairment losses on receivables

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

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

Useful lives for property, plant and equipment

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

Financial risk management

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

Financial risk management (continued)

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

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

Notes to the consolidated financial statements

1 Segment reporting

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

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

Segment information for 2009:

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

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

Segment information for 2009 per geographical zones:

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

Notes to the consolidated financial statements

1 Segment reporting (continued)

Segment information for 2008:

Thousand Litas	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	145,405	40,009	21,064	-54,497	151,981
Interest income	103	3,148	434	-3,157	528
Interest expenses	-2,930	-835	-609	125	-4,249
Depreciation and amortisation	4,421	1,312	306	-	6,039
Result before taxation	-11,181	1,671	-2,688	-1,218	-13,416
Income tax expense	1,444	-27	29	31	1,477
Net profit (loss)	-9,737	1,644	-2,659	-1,217	-11,969
Other material non-cash items	-	-	-	-	-
Segment assets	109,315	31,316	13,194	-16,062	137,763
Acquisition of property, plant and equipment	6,048	1,146	4,636	20,990	32,820
Segment liabilities	75,279	25,269	15,594	-10,215	105,927

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

Adjustment reported under acquisition of property, plant and equipment is related to acquisition of AB Kelmės Pieninė.

Segment information for 2008 per geographical zones:

Thousand Litas	Revenue	Assets
Lithuania	58,938	137,763
European Union	71,238	
Russia	20,630	
Other countries	1,175	
	151,981	137,763

Information about major clients

Income from one client earned by the Group in 2009 amounted to 21,157 tLTL (2008 : 14,233 tLTL).

Notes to the consolidated financial statements

Thousand Litas	2009	2008
2 Cost of sales		
Raw materials	-100,103	-105,228
Other costs	-37,313	-45,983
Reversal (write down) due to net realizable value	3,127	-3,127
	-134,289	-154,338
3 Distribution expenses		
Logistics	-2,415	-437
Marketing and advertising	-1,544	-216
Staff costs	-893	-364
Transportation	-1,109	-55
Other sales costs	-1,087	-58
	-7,048	-1,130
4 Administrative expenses		
Staff costs	-2,943	-3,154
Depreciation and amortisation	-803	-494
Taxes except for income tax	-403	-267
Bank charges	-270	-367
Consultations	-220	-270
Repair	-110	-288
Insurance	-85	-223
Other	-1,694	-2,165
	-6,528	-7,228
5 Net financing costs		
<i>Finance income</i>		
Penalties and fines	20	22
Other	5	452
Interest	41	54
Total finance income	66	528
<i>Finance costs</i>		
Interest	-2,971	-3,870
Loss from foreign exchange	-206	-2
Other	-169	-377
Total finance costs	-3,346	-4,249
	-3,280	-3,721

Notes to the consolidated financial statements

6 Income tax expense

Thousand Litas 2009 2008

Recognised in the income statement

Current income tax expense

Current period - -26

Deferred tax

Change in deferred tax	-1,249	1,473
	-1,249	1,447

Deferred tax liability, recognised in equity, amounts to 1,356 tLTL as at 31 December 2009 (2008: 1,896 tLTL).

Reconciliation of effective tax rate

Thousand Litas	2009	2008		
Profit (loss) before tax	7,972	-13,416		
Income tax expense	-1,249	1,447		
Net profit (loss)	6,723	-11,969		
Income tax applying the effective tax rate	20% 1,594	-15% -2,012		
Non-deductible expenses	4,35% 347	8,89% 1,193		
Non-taxable income	-4,27% -341	-4,22% -566		
Tax loss for the previous year	-23,92% -1,907	- -		
Change in tax rate	28,58% 2,278	1,38% 185		
Non-taxable profit of AB Kelmės Pieninė due to social status of the company	-9,05% -722	-1,84% -247		
Income tax expense	15,69% 1,249	-10,79% -1,447		

7 Earnings per share

	2009	2008
Number of issued shares calculated based on weighted average method, in thousand units	11,943	11,296
Net profit, attributable to ordinary shareholders of the company, in thousand Litas	6,690	-11,916
Basic earnings per share, in Litas	0.56	-1.06

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

Notes to the consolidated financial statements

8 Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2008	19,727	32,722	12,387	1,481	66,317
Acquisitions	9,175	18,173	2,940	2,061	32,349
Disposals	-2	-455	-1,085	-	-1,542
Reclassification	149	164	8	-321	-
Balance as at 31 December 2008	<u>29,049</u>	<u>50,604</u>	<u>14,250</u>	<u>3,221</u>	<u>97,124</u>
Balance as at 1 January 2009	29,049	50,604	14,250	3,221	97,124
Acquisitions	78	1,235	207	882	2,402
Disposals	-926	-1,613	-762	-	-3,301
Reclassification	170	223	503	-896	-
Balance as at 31 December 2009	<u>28,371</u>	<u>50,449</u>	<u>14,198</u>	<u>3,207</u>	<u>96,225</u>
Depreciation and impairment					
Balance as at 1 January 2008	724	13,447	5,894	-	20,065
Depreciation for the year	1,534	2,761	1,651	-	5,946
Disposals	-2	-259	-366	-	-627
Reclassification	-	-	-	-	-
Balance as at 31 December 2008	<u>2,256</u>	<u>15,949</u>	<u>7,179</u>	<u>-</u>	<u>25,384</u>
Balance as at 1 January 2009	2,256	15,949	7,179	-	25,384
Depreciation for the year	2,730	2,758	983	-	6,471
Disposals	-82	-1,078	-718	-	-1,878
Reclassification	-	-	-	-	-
Balance as at 31 December 2009	<u>4,904</u>	<u>17,629</u>	<u>7,444</u>	<u>-</u>	<u>29,977</u>
Carrying amounts					
At 1 January 2008	<u>19,003</u>	<u>19,275</u>	<u>6,493</u>	<u>1,481</u>	<u>46,252</u>
At 31 December 2008	<u>26,793</u>	<u>34,655</u>	<u>7,071</u>	<u>3,221</u>	<u>71,740</u>
At 1 January 2009	<u>26,793</u>	<u>34,655</u>	<u>7,071</u>	<u>3,221</u>	<u>71,740</u>
At 31 December 2009	<u>23,467</u>	<u>32,820</u>	<u>6,754</u>	<u>3,207</u>	<u>66,248</u>

Pledges

To secure bank loans, the Group has pledged its non-current assets with a book value of 48,619 tLTL as at 31 December 2009 (2008 : 61,562 tLTL) (note 15).

Acquisition cost of depreciated non-current assets in use amounts to 14,626 tLTL as at 31 December 2009 (2008 : 14,233 tLTL).

Notes to the consolidated financial statements

8 Property, plant and equipment (continued)

Leased property, plant and equipment

The Group has acquired several transport vehicles and plant and equipment by way of finance lease. The carrying amount of the leased assets amounted to 3,041 tLTL as at 31 December 2009 (2008 : 4,029 tLTL).

Depreciation

Depreciation is recorded in the following items:

Thousand Litas	2009	2008
Cost of sales	5,161	5,022
Distribution and administrative expenses	843	602
Other operating income, net	467	322
	<u>6,471</u>	<u>5,946</u>

Valuation of buildings

The Group accounts for buildings at revalued value. Carrying amount of buildings stated as revalued amount less depreciation amounts to 7,229 tLTL as at 31 December 2009 (2008 : 8,849 tLTL). Last revaluation was performed in 2006. Buildings of AB Kelmės Pieninė, the carrying amount of which as at 31 December 2009 amounts to 6,717 tLTL (2008 : 7,106 tLTL), are evaluated at fair value at acquisition date (30 April 2008). An analysis performed by the management showed that the carrying amounts of the buildings, stated as at 31 December 2009, do not significantly differ from the market value determined based on the comparative transactions method in 2009.

The revaluation reserve is decreased by an amount of deferred tax and its net value as at 31 December 2009 amounts to 7,689 tLTL (2008 : 7,588 tLTL).

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Notes to the consolidated financial statements

9 Intangible assets

Thousand Litas	Goodwill	Software	Total
Cost			
Balance at 1 January 2008	1,033	627	1,660
Acquisitions	22,842	471	23,313
Balance at 31 December 2008	23,875	1,098	24,973
Balance at 1 January 2009	23,875	1,098	24,973
Acquisitions	-	450	450
Disposals	-	-11	-11
Balance at 31 December 2009	23,875	1,537	25,412
Amortisation and impairment			
Balance at 1 January 2008	-	586	586
Amortisation for the year	-	93	93
Balance at 31 December 2008	-	680	680
Balance at 1 January 2009	-	680	680
Amortisation for the year	-	260	260
Disposals	-	-11	-11
Balance at 31 December 2009	-	929	929
Carrying amounts			
1 January 2008	1,033	41	1,074
31 December 2008	23,875	418	24,293
1 January 2009	23,875	418	24,293
31 December 2009	23,875	608	24,483

Amortisation for the year is recognised in administrative expenses.

Impairment of cash generating units with attributed goodwill

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

Thousand Litas	2009	2008
AB Kelmės Pieninė	22,842	22,842
AB Modest	1,033	1,033
	<u>23,875</u>	<u>23,875</u>

Notes to the consolidated financial statements

9 Intangible assets (continued)

Impairment of cash generating units with attributed goodwill (continued)

The mentioned cash generating units were tested for impairment when calculating their value of use. When estimating the value in use, the calculated future cash flows have been discounted to their present value using the pre-tax average rate of the weighted average cost of capital in the industry, which was 8.54% (2008: 8.05%). Calculation of the value in use performed in 2009 was as well applied for the year 2008, if not indicated otherwise. Calculation of the value in use is based on the following assumptions:

- Future cash flows for 2009 and 2008 are calculated based on historical experience and the 5 year business plan. Cash flows expected during the subsequent 10 years period were calculated by extrapolating the cash flow of the fifth year with the zero growth ratio. The Company's management is planning to strengthen the Group's marketing and to increase export sales;
- The Company's management expects that prices of raw milk will not differ significantly from the prices in 2009;
- As to the forecasts of the management, an effect of inflation on sales prices and raw material prices will be insignificant;

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

10 Long-term receivables

Thousand Lit	Note	2009	2008
Prepayments to related parties	21	842	842
Long-term receivables from customers		217	-
Loans granted to related parties		351	351
Other long-term receivables		11	40
		1,421	1,233

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

A loan of 351 thousand Lit, issued to a related party ŪKB Šilgaliai, matures on 31 December 2012. The outstanding balance of the prepayment bears an annual interest of 5%.

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

Notes to the consolidated financial statements

11 Inventories

Thousand Lit	2008	2009
Finished production	14,683	19,345
Write down to net realizable value	-	-3,127
	14,683	16,218
Raw materials	194	2,494
Other auxiliary materials	3,624	1,879
Goods for re-sale	11	10
	18,512	20,601

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

As at 31 December 2009 there was no write down of inventories (2008: 3,127 tLTL). Write down of inventories to net realisable value and reversal of impairment are included in the cost of sales.

In 2009 changes in raw materials, auxiliaries and finished goods as well as construction in progress are recognised in the cost of sales at an amount of 100,103 tLTL (2008 : 105,228 tLTL).

As at 31 December 2009 the inventories, the carrying amount of which amounts up to 16,5 million LTL (2008 : up to 15 million LTL) have been pledged to financial institutions (note 15).

12 Trade and other receivables

Thousand Lit	Note	2009	2008
Trade receivables		12,373	12,535
Trade receivables due from related parties	21	137	66
Receivable capital grants		-	3,677
Prepayments	a)	398	259
Receivable export compensations	b)	100	-
Receivable taxes		626	418
Other receivable amounts		1,186	1,629
		14,820	18,584

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

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

b) Receivable export compensation is for export of production to Russia.

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

Notes to the consolidated financial statements

13 Cash and cash equivalents

Thousand Lit	2008	2009
Cash at bank	211	155
Cash in hand	184	40
	395	195
	395	195

All account balances as at 31 December 2009 have been pledged to secure bank loans (note 15). Furthermore, cash inflows in the bank accounts are pledged to secure bank loans (note 15).

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

14 Capital and reserves

Authorised capital of the parent company as at 31 December 2009 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

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

Legal reserve

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

Share premium

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

Revaluation reserve

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

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

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

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

Notes to the consolidated financial statements

15 Interest bearing loans and borrowings

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

Creditor	Ref.	Currency	Contractual amount, tLTL	Balance at 31-12-2009	Balance at 31-12-2008
AB SEB Bankas	a)	EUR	18,283	10,270	12,315
AB Bankas Snoras	b)	EUR	2,072	418	832
AB Bankas Snoras	b)	EUR	8,386	8,001	8,386
AB Bankas Snoras	b)	EUR	1,554	1,208	1,554
AB Bankas Snoras	b)	LTL	350	350	-
AB SEB Bankas	c)	EUR	3,459	3,459	3,459
AB SEB Bankas factoring	d)	EUR	2,141	-	995
Swedbank AB	e)	EUR	6,300	5,681	6,290
Swedbank AB	f)	EUR	11,999	11,800	11,999
Swedbank AB	f)	EUR	2,000	845	2,000
Swedbank AB	g)	EUR	8,300	1,417	2,300
AB SEB Bankas ES	h)	EUR	7,078	2,389	4,536
AB SEB Bankas credit facility	i)	EUR	7,506	4,723	7,007
AB Bankas Snoras	j)	EUR	5,429	1,838	4,469
AB Bankas Snoras	k)	EUR	1,300	929	1,300
Leasing liabilities	l)			1,928	3,105
Total liabilities				55,256	70,547
Less: current part				-15,990	-21,601
Total loans and borrowings payable after one year				39,266	48,946

a) The loan (3,475 tEUR) was used to re-finance the previously received loans from AB SEB Bankas and AB Bankas Snoras as well as for working capital needs. The loan is repayable in equal monthly instalments, except for January and February. The loan matures on 26 December 2011. Repayment of the second part (1,820 thousand EUR) started on 30-06-2008, paying in equal quarterly instalments. The loan shall be repaid by 27-04-2015. The determined interest rate is related to 6 months EURIBOR + margin. Accordint to the loan agreement, the Company is obliged to maintain EBITDA of 13 million Litass and interest coverage ratio of 1.2 at the end of the financial year. The loan is secured by pledging property, plant and equipment (note 8), inventories (note 12), bank account balances and trademarks.

b) The Company was granted credit facilities (in total amounting to 3,855 thousand EUR) for working capital needs. The maturity date is 24 January 2011. The liability is secured by the primary and secondary pledge of non-current assets, the land rent rights and cash at bank. The credit facility of 350 tLTL is used for remuneration of „Tiltas“ employees. The deadline for settlement is June 2010. The credit facility bears interest of 6 months EURIBOR + margin.

c) The loan (1,002 thousand EUR) was issued to AB Vilkyškių Pieninė on 21-04-2008 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan starts as of 31-03-2010, in equal quarterly instalments and ends on 31-03-2015. The loan is secured by pledging buildings and equipment by secondary pledge and equipment by primary pledge. The effective interest rate is 6 months EURIBOR + margin.

Notes to the consolidated financial statements

15 Interest bearing loans and borrowings (continued)

d) A factoring agreement was signed by the Company on 05-06-2008 for the purpose of factorising several foreign clients and UAB Palink. The interest rate of the factoring agreements is related to 12 months Euribor + margin. The factoring was settled as at 31 December 2009.

e) The loan was granted to AB Vilkyškių Pieninė (1,825 thousand EUR) on 28-04-2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan starts as of 30-09-2008 in equal annual instalments until 28-04-2013. The loan is secured by pledging inventories, equipment, current and future cash inflows on account at AB Swedbank, as well as 50 per cent of the shares of AB Kelmės Pieninė. The effective interest rate is 6 months EURIBOR + margin. The Company obligated to the bank to maintain debt service coverage ratio of 1.2 at the end of the financial year, equity ratio not less than 0.2 and net financial debt / EBITDA not more than 6.

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

g) The loan (2,404 t EUR) has been granted to AB Kelmės Pieninė for realisation of the Project of the EU structural funds for 2004-2006. The loan shall be repaid in equal quarterly instalments by 28 June 2010. The loan is secured by the equipment financed from the EU structural funds and the buildings under secondary pledge. The effective interest rate is 6 months EURIBOR + margin.

h) The loan agreement was concluded on 11 February 2006. The funds received are used for acquisition of new equipment used in whey processing, production of cheese, expansion of capacities of the workshop for acceptance of milk. It is expected to receive a grant from the Structural Funds of EU, amounting to 2,189 tLTL, which will be used for partial repayment of the loan. To secure the loan the Company pledged its movable and not movable assets. The loan is repayable in equal parts and matures on 20 December 2012. The Company took an obligation to maintain the annual EBITDA ratio not less than 9 million Lit. The effective interest rate is 6 months EURIBOR + margin.

i) According to the agreement, dated 14 June 2006, AB Vilkyškių Pieninė was granted a credit facility of 1,160 tEUR for working capital needs. The credit limit for a day is increased up to 2,174 tEUR. The liability matures on July 2010. To secure the liability the Company has pledged its real estate and equipment by secondary pledge. The effective interest rate is 6 months EURIBOR + margin.

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

k) The loan was issued to UAB Modest for working capital needs. The repayment in equal monthly instalments starts as of 29 June 2009 and ends by 20 December 2010. The loan is secured by secondary pledge of the buildings, equipment, inventories and cash balances. The interest rate is related to 6 months LIBOR + margin.

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

In 2009, certain ratios prescribed in the loan covenants were not complied with.

If the Company followed the classification criteria defined by IAS 1, payable loans of 16,983 tLTL would be classified as current liabilities.

Notes to the consolidated financial statements

15 Interest bearing loans and borrowings (continued)

Loan repayment schedules, except for finance lease liabilities:

Thousand Litas	2009	2008
Within one year	15,190	20,446
From 1 to 5 years	33,592	46,996
After 5 years	4,546	-
	53,328	67,442
	53,328	67,442

Finance lease liabilities

The finance lease payments are as follows:

Within 1 year	901	1,293
From 1 to 5 years	1,092	2,184
	1,993	3,477
Future interest on finance lease	-65	-372
Present value of finance lease liabilities	1,928	3,105
	1,928	3,105

Finance lease agreements do not contain any contingent lease payments.

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

16 Government grants

Thousand Litas	2009	2008
Carrying amount at the beginning of the period	8,894	4,607
Grants received	32	4,674
Amortisation recognised in the income statement	-548	-387
Written down grants due to disposal of assets	-175	-
Carrying amount at the end of the period	8,203	8,894
	8,203	8,894

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

Notes to the consolidated financial statements

17 Deferred tax liabilities

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

Thousand Litas	Assets		Liabilities		Net value	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	-	-	3,027	3,868	3,027	3,868
Vacation reserve	-	-194	-	-	-	-194
Inventories	-	-172	-	-	-	-172
Capital grants	-193	-156	-	-	-193	-156
Other accruals	-7	-	-	-	-7	-
Tax losses to be carried forward	-526	-1,755	-	-	-526	-1,755
Deferred tax (asset) / liabilities	-726	2,277	3,027	3,868	2,301	1,591

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Decrease in deferred tax liability by 540 tLTL, related to revaluation of non-current assets, was recognised by increasing the revaluation reserve in equity. The increase in the deferred tax liability recognised in the income statement amounted to 1,249 tLTL.

18 Trade and other payable amounts, including derivatives

Thousand Litas	2009	2008
Trade payables	16,101	19,819
Employment related liabilities	2,942	2,374
Payable dividends	125	125
Other payable amounts and accrued costs	1,040	1,446
Prepayments received	708	1,036
Fair value of interest rate swap transaction	104	95
	<u>21,020</u>	<u>24,895</u>

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

Notes to the consolidated financial statements

19 Contingencies

At the date of statement of financial position there were no litigations raised against the Group.

As at 31 December 2009 the Group had the following material contractual liabilities:

Acquisition of property, plant and equipment	2,406	-
Purchase of raw materials	9,300	8,200
	11,706	8,200
	11,706	8,200

On 28 October 2009 AB Vilkyškių Pieninė and National Settlement Agency under the Ministry of Agriculture signed an agreement for provision of a government grant up to 6,634 tLTL according to the project Increase of Competitiveness in Milk Processing. The total estimated cost of the investment project amounts to 33,171 tLTL.

The following assets were pledged as at 31 December 2009 to secure the bank loans (note 15):

- Current and future cash inflows in the accounts of different banks;
- Property, plant and equipment with the carrying amount of 48,619 tLTL;
- Inventories with the market value of 16,5 million LTL

20 Staff costs

Staff costs are included in the following items:

Cost of inventories	14,031	14,317
Administrative expenses	3,977	3,737
	18,008	18,054
	18,008	18,054

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

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

Staff costs include remuneration to the Company's management of 987 tLTL including social security contributions (2008: 1,028 tLTL).

Notes to the consolidated financial statements

21 Transactions with related parties

Thousand Litas	Note	2009	2008
Receivable amounts			
<i>Prepayments</i>			
KŽŪB Šilgaliai	10	842	842
		842	842
<i>Trade receivable amounts</i>			
KŽŪB Šilgaliai	12	137	66
		137	66
<i>Loans raised</i>			
KŽŪB Šilgaliai	10	351	351
		351	351
		1,330	1,259
Sale of raw materials, goods and services			
KŽŪB Šilgaliai		64	64
L. Strėlis, AB Kelmės Pieninė Chairman of the Board until May 2008 – Proceeds from disposal of shares of AB Agrowill Group		-	13,496
		64	13,560
Purchase of raw materials, goods and services			
KŽŪB Šilgaliai		503	972
		503	972

The Group did not incur any profit or loss from disposal of the shares of AB Agrowill Group as the shares had been evaluated at fair value during acquisition of AB Kelmės Pieninė.

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

Amounts related to labour relations, paid to management, amounted to 987 tLTL as at 31 December 2009 (2008: 1,028 tLTL). Salaries to management are included in the item of administrative costs under „Staff costs“ (note 20):

Prepayments to management are accounted for in receivable amounts:

Thousand Litas	2009	2008
Other amounts receivable from management	611	712

Notes to the consolidated financial statements

22 Financial instruments and risk management

Credit risk

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

Thousand Litas	Note	Carrying amount	
		2009	2008
Trade receivables	10,12	12,727	12,601
Other receivables	10,12	1,923	5,764
Loans raised	10	351	351
Cash and cash equivalents	13	395	195
		15,396	18,911
		15,396	18,911

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

	Carrying amount	
	2009	2008
Lithuania	8,316	8,260
Latvia	2,118	2,591
Estonia	55	28
Russia	1,247	1,533
Other	991	189
	12,727	12,601
	12,727	12,601

Impairment losses

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

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Impairment losses (continued)

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

Thousand Litas	Gross 31 December 2009	Impairment 31 December 2009	Gross 31 December 2008	Impairment 31 December 2008
Related parties:				
Not past due	1,207	-	1,222	-
Past due 0-30 days	2	-	-	-
Past due 31-60 days	3	-	-	-
More than 60 days	118	-	37	-
	1,330	-	1,259	-
Other parties:				
Not past due	12,938	-	9,483	-
Past due 0-30 days	961	-	3,380	-
Past due 31-60 days	185	-	5,449	-
More than 60 days	827	-	246	-
	14,911	-	18,558	-
	16,241	-	19,817	-

There was no impairment recognised in relation to trade and other receivables in 2008 and 2009. The Group is of the opinion that receivables past due more than 30 days will be recovered as delayed payment of such receivables is grounded by payment history and evaluations of client solvency.

Liquidity risk

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

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2009 were 0.91 and 0.41 respectively (0.87 and 0.43 as of 31 December 2008, respectively).

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

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Liquidity risk (continued)

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

31 December 2009

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

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

31 December 2008

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Thousand Lit							
Financial liabilities							
AB SEB loans	27,317	(29,483)	(4,853)	(2,176)	(14,144)	(4,913)	(3,397)
AB Snoras loans	16,541	(17,887)	(2,092)	(2,138)	(11,168)	(2,489)	-
Swedbank AB loans	22,589	(26,119)	(1,343)	(2,032)	(5,697)	(10,402)	(6,645)
AB SEB factoring	995	(995)	(995)	-	-	-	-
Finance lease liabilities	3,105	(3,447)	(697)	(566)	(1,502)	(682)	-
Trade and other payable amounts	24,896	(24,896)	(24,896)	-	-	-	-
	<u>95,443</u>	<u>(102,827)</u>	<u>(34,876)</u>	<u>(6,912)</u>	<u>(32,511)</u>	<u>(18,486)</u>	<u>(10,042)</u>

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

	2009	2008
Loans and finance lease liabilities	3%	5%

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Currency risk

The Group's exposure to the foreign currency risk was as follows (expressed in Litas' 000), using the exchange rates, valid as at 31 December 2009:

	2009			2008		
	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>
Long-term receivables	1,421	-	-	1,233	-	-
Trade and other receivables	10,805	2,929	1,086	13,938	3,698	948
Cash and cash equivalents	254	141	-	195	-	-
Loans and leasing liabilities	(4,103)	(51,153)	-	(9,017)	(61,530)	-
Trade and other payables	(19,318)	(1,702)	-	(22,828)	(2,068)	-
Net exposure	<u>(10,941)</u>	<u>(49,785)</u>	<u>1,086</u>	<u>(16,479)</u>	<u>(59,900)</u>	<u>948</u>

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

	Average	
	<u>2009</u>	<u>2008</u>
EUR	3.4528	3.4528
LVL	4.8191	4.9153

The following exchange rates were applied as at 31 December:

	<u>2009</u>	<u>2008</u>
	EUR	3.4528
LVL	4.8679	4.8872

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Sensitivity analysis

A 10 percent strengthening of the Litas against the following currencies at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

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

31 December 2008 Effect in Litas'000	Equity	Profit (loss)
EUR	5,990	5,990
LVL	(95)	(95)

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

The functional currency of the Group is Litas (LTL). As exchange rate of LTL to EUR is fixed at 3.4528 LTL / EUR, the Group faces foreign currency risk on purchases and sales that are denominated in currencies other than EUR. The main part of the Group's transactions in 2009 year are denominated in LTL and EUR, therefore the Group did not expose to significant foreign currency exchange risk.

Interest rate risk

The Group's borrowings bear variable interest rates related to LIBOR varying from LIBOR+1.3 % to LIBOR+3.25%. The average effective interest rates in 2009 were close to the actual interest rates

If the effective interest rate applied on the Group's borrowings with variable interest rates increases (or decreases) by 1 percent, the interest costs for the year ended 31 December 2009 and the profit for the year would decrease (or increase) by approximately 553 tLTL (2008 – 706 tLTL).

The Group has entered into an interest rate swap agreement with a bank, by which it partly hedges from significant interest rate fluctuations. The fair value of the interest rate swap agreement, amounting to 104 tLTL, is recognised in financial liabilities.

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

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Interest rate risk (continued)

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

Interest rate risk

Litas'000

	Carrying amount	
	2009	2008
Fixed rate financial instruments		
AB Bankas Snoras loan	350	-
	350	-
	350	-

According to the agreement with AB Bankas Snoras, the loan bears fixed interest rate, therefore, changes in the interest rate would not have influence on profit or loss at the reporting date.

Variable rate financial instruments

SEB loans	20,841	27,317
Swedbank loans	19,743	22,589
AB Bankas Snoras loans	12,394	16,541
SEB factoring	-	995
Finance lease liabilities	1,928	3,105
	54,906	70,547
	55,256	70,547

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

Effect in thousand Lit	Profit (loss)		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2009				
Variable rate instruments	(553)	553	(553)	553
31 December 2008				
Variable rate instruments	(706)	706	(706)	706

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Fair value of financial instruments

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

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

Financial instruments stated at fair value as at 31 December 2009 comprise derivatives. The Company does not have any other financial instruments stated at fair value as of 31 December 2009 and 2008.

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

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

Thousand Litas	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term receivables	1,421	1,421	1,233	1,233
Trade and other receivables	14,820	14,820	18,584	18,584
Cash and cash equivalents	395	395	195	195
Loans and finance lease liabilities	(55,256)	(55,256)	(70,547)	(70,547)
Trade and other payables	(21,020)	(21,020)	(24,895)	(24,895)
	<u>(59,640)</u>	<u>(59,640)</u>	<u>(75,430)</u>	<u>(75,430)</u>

Financial liabilities to banks and leasing companies are related to variable interest rate, therefore the carrying amount approximates the fair value. The management is of the opinion that the fair value risk was minimal as at 31 December 2009 as the major part of financial liabilities bear a variable interest rate.

Price risk

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

Capital management

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

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

Notes to the consolidated financial statements

22 Financial instruments and risk management (continued)

Capital management (continued)

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

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

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

23 Subsequent events

AB Bankas Snoras has granted a loan of 1,448 t EUR to AB Vilkyškių Pieninė for an investment project as to facility „Processing of agricultural goods and increase of surplus value – support by loans“. The liability is guaranteed by UAB Žemės Ūkio Paskolų Garantijų Fondas for a period of seven years.

There were no other significant events after the reporting date.

AB Vilkyškių Pieninė
Consolidated annual report for the year 2009

I. Letter of the Director General G. Bertasius of Vilkyškiu pienine AB to the Investors

After the detrimental year 2008 during which the Company experienced reduce in raw material prices, a significant decrease in production volumes, management and administrative costs, and after changing part of markets, the consolidated profit of AB Vilkyškių Pieninė group for 2009 amounted to 6,7 million LTL, compared to the loss amounted to 12 million LTL earned in 2008.

The number of employees of the Company was increasing and at the end of 2009 reached 735:

- ✓ AB Vilkyškių Pieninė – 430 employees;
- ✓ AB Modest – 141 employees;
- ✓ AB Kelmės Pieninė – 164 employees.

During the economic slowdown, The Company searched for new markets and is focusing on production of products with higher added value. In 2009 the Company entered the markets of the new EU member states and Israel. The nearest goal is to equip the new premises for storage-ripening of cheese, creation of a more convenient packing of goods for final user, activation of labour in an independent market, strengthening of sales activity, formation of marketing division, development of fresh dairy products. Furthermore, the Company will purposefully continue with creation of trademarks of the Company and of separate products and their strengthening both, in the Lithuanian and foreign markets, development of product assortment and introduction of new exclusive types of cheese and dessert dairy products.

Due to economical situation, prices of dairy products in 2008 reached historical depression. Seeking to mitigate the situation, the European Commission redeemed export subsidies for certain dairy products. The determined subsidy amount for export of cheese amounted approximately to 200 EUR/ton. Also, purchases were started to intervention warehouses in Europe accumulating 257 thousand tons of thin milk flour, 76 thousand tons of butter.

Decrease in production of milk, actions of the EU institutions and promotion of interventional purchases offsetted the supply and demand. Moreover, currently stable prices and an increasing demand for goods demonstrate the start of stability period and the first signs of recovery. It may be said that milk processing is one of the branches of food industry which recovers first.

The Company expects that in 2010 profit will be in the same level as in 2009, and activities will require prompt reaction to changes in the market, and expansion of variety of goods as well as optimisation of production and administrative costs.

Gintaras Bertasius

II. GENERAL INFORMATION ABOUT THE ISSUER

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

The report has been prepared for the year 2009.

Acquaintance with statement and other documents

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

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

Persons responsible for information presented in this financial statement:

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

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

Financial statement in accordance with the information presented by the representatives of the Issuer has been prepared by:

Financial Broker Company Orion Securities UAB, A. Tumėno g. 4B, LT-01109 Vilnius, tel. (8 5) 2603969, fax (8 5) 2313840. Representative – Analyst of Finances Jonas Narbutas.

2. Key data about the Issuer

AB Vilkyškių Pieninė

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

AB Modest

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

AB Kelmės Pieninė

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

3. Nature of the Issuer's core business

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

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

4. Contracts with intermediaries of the public circulation of securities

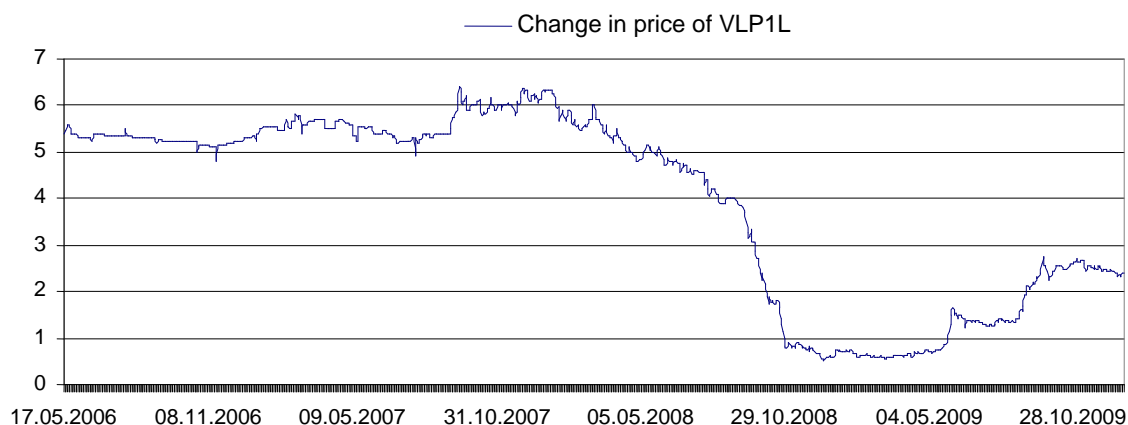
Vilkyškių pieninė AB has entered into the contract of service with Financial Broker Company Orion Securities UAB (address: A. Tumeno g. 4, B korp., LT-01109, Vilnius) on the record of shareholders of Vilkyškių pieninė AB.

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

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

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

Period	Price (Lt)		Turnover (Lt)	
	max	min	max	min
2006.05.17 - 2006.09.31	5,60	4,60	647.808	0,00
2006.10.01 - 2006.12.31	5,30	4,76	360.722	0,00
2007.01.01 - 2007.03.31	5,82	5,20	126.233	0,00
2007.04.01 - 2007.06.30	5,70	5,01	380.555	0,00
2007.07.01 - 2007.09.30	6,50	4,80	3.621.100	0,00
2007.10.01 - 2007.12.31	6,70	5,75	637.638	0,00
2008.01.01 - 2008.03.31	6,40	5,00	1.507.303	0,00
2008.04.01 - 2008.06.30	5,52	4,51	237.964	0,00
2008.07.01 - 2008.09.30	4,75	2,05	324.605	0,00
2008.10.01 - 2008.12.31	2,50	0,52	69.650	0,00
2009.01.01 - 2009.03.31	0,79	0,52	241.806	0,00
2009.04.01 - 2009.06.30	1,69	0,60	83.134	0,00
2009.07.01 - 2009.09.30	2,86	1,25	557.512	0,00
2009.10.01 - 2009.12.31	2,75	2,27	66.144	0,00



Securities that do not signify the participation in the authorized capital

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

Secondary circulation of securities of the Issuer

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

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

III INFORMATION ABOUT THE ISSUER'S ACTIVITIES

6. Legal basis for the Issuer's activities

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

7. Brief description of the Issuer's history

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

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

Significant events in the history of the Issuer

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

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

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

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

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

In the same year the company started producing fermented cheese "Zemaiciu", butter blend "Saules vaises" and fermented cheese "Tilziukas" with spice additives. That cheese won the golden medal at the international exhibition AgroBalt'1999 and became Lithuanian product of the year.

In **2000** the company started producing fermented cheese of "Maasdam" type. In 2001 cheese "Maasdam" won the golden medal at the international exhibition "AgroBalt". Moreover, in 2000-2001 attractive inexpensive fermented cheeses "Kursiukas", "Taupa" and "Sumustiniu" were offered to the consumers. During the period of fourteen years of company's operation, the company has created entire necessary service infrastructure

(mechanical workshop, automobile centre (50 automobiles), milk freezing equipment, zone of raw material purchase), has changed or additionally bought all the equipment of the dairy, has built new workshops.

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

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

In June **2001** the company acquired Taurage workshop form Mazeikiai subsidiary of Pieno Zvaigzdes AB. Taurage workshop is situated about 20 km form Vilkyškiai town. This workshop was built in 1965 as a creamery and it corresponds with all raised requirements. The workshop is consisted of milk collection division, milk separation division, two cheese workshops, ripening workshop, pre-wrap workshop, mechanical workshop, automobile centre for the transportation of milk, raw milk zone as well as all other necessary service infrastructure – refrigeration, steam and air.

The company started building ripening workshop and cleaning equipment.

In the end of the year 2001 the company started producing mould cheese in Taurage workshop.

In **2003** the company reconstructed freezing chamber.

In **2004** the company carried out roof reconstruction and repair of buildings.

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

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

Ammonia freezing compressor was reconstructed.

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

In January **2006** the Issuer acquired 80.25% shares of AB Modest. According to the resolution Nr. 1S-3 of the Competition Board, dated 12 January 2006, the Issuer has the right to acquire up to 100 % of AB Modest shares.

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

In June **2007** the whey processing workshop of Vilkyškiu pienine AB started operating. Vilkyškiu pienine AB received the support of LTL 3,45 million from the European Union Structural Funds for the modernization of cheese production workshop and whey processing project. Investments provided the company with possibility to increase far better the

effectiveness of production and production quality control, moreover, it allowed effective reduction of waste.

In 2007 a support of 2,1 million LTL from the EU structural funds was granted to the subsidiary of AB Vilkyškių Pieninė - AB Modest, which up-dated the specialised depot for transportation of milk and dairy products.

In **2008** Vilkyškiai boiler-house was reconstructed and the company started building cheese ripening workshop.

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

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

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

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

The general shareholders meeting of AB Modest, which took place on 7 July **2009** took a decision to increase the company's authorized capital from LTL 128,408 up to LTL 692,710, by issuing 564,302 ordinary shares. The term for subscription agreements with shareholders ended on 25 July 2009. In total 488,710 shares were subscribed. According to the decision of the general shareholders meeting, if not all the shares are subscribed during the period given for subscription, the share capital is increased by the total nominal value of the subscribed shares. The company's authorized capital was increased up to LTL 617,118.

8. The activity of the Issuer

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

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

Cheeses are produced according to the old Lithuanian ("Tilze" – *Tilsit* type cheese), worldwide ("Maasdam", „Gouda", „Edam") and original ("Prusija" – *Žalgiris*) recipes. Cheeses "Tilziukas" with spice additives (in 1999) and "Maasdam" (in 2001) won gold medals of the best product of the year at the international exhibition "AgroBalt".

After the investment in the automation of production in 2006, the productive capacity of the Issuer in Vilkyškiai workshop (excluding Modest AB) increased up to 31 tone of cheese per twenty four hours. Taurage workshop is capable to produce 10 tonnes of cheese per twenty

four hours. However, maximum productive capacity is limited by the lack of raw milk in winter season (in winter the amount of purchased milk is several times lower than in summer).

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

Tables below summarize key consolidated indicators of production and trade volumes of the Issuer.

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

Purchased raw milk (recalculated into base fatness)	2005	2006	2007	2008	2009
Purchased milk, in tons	94,852	126,707	105,638	139,705	151,150
Purchased milk, in tLTL	56,180	75,592	75,619	95,603	77,705
Price of purchased milk, in LTL/t	592,3	596.6	715.8	684.0	514.1

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

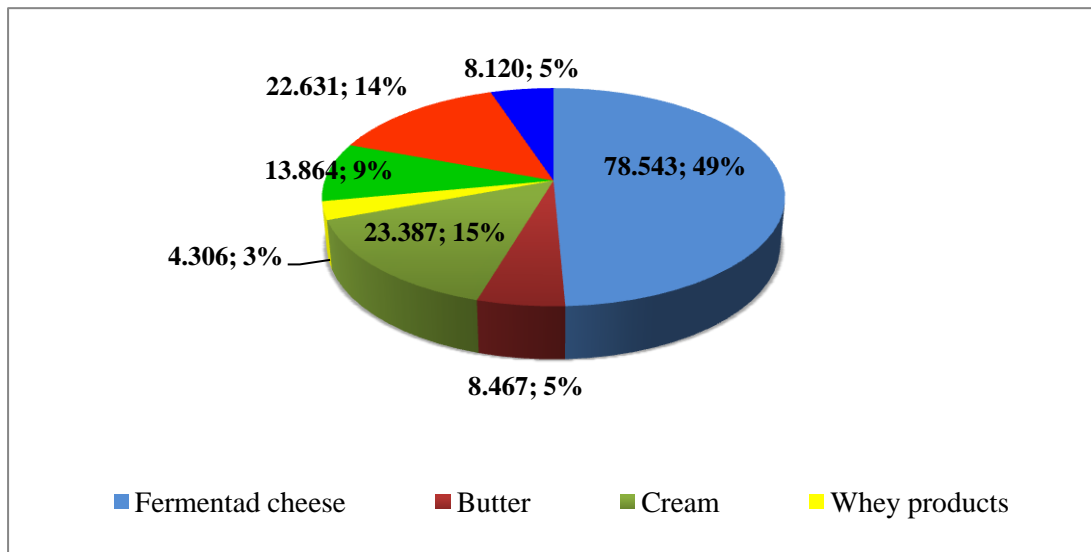
Amount of produced products, expressed in tons	2005	2006	2007	2008	2009
Fermented cheese	8,293	10,341	8,317	10,710	9,279
Butter	1,247	587	630	749	1,151
Cream	2,090	4,831	5,499	5,774	6,479
Sour cream				2,150	3,702
Curd products				1,618	3,770

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

Amount of sold products, expressed in tons	2005	2006	2007	2008	2009
Fermented cheese	7,969	9,620	8,610	9,265	9,370
Butter	1,380	608	600	869	1,119
Cream	2,090	4,831	5,564	5,641	5,658
Sour cream				2,150	3,667
Curd products				1,618	3,757

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

Income from sold production, expressed in LTL thousand	2005	2006	2007	2008	2009
Fermented cheese	71,391	88,141	86,193	95,040	78,543
Butter	8,287	3,502	4,127	6,632	8,467
Cream	8,893	19,454	32,436	22,492	23,387
Whey products		1,975	6,533	4,543	4,306
Sour cream				8,662	13,864
Curd products				10,237	22,631
Other income	3,138	2,647	6,985	4,375	8,120
Total income	91,709	115,719	136,274	151,981	159,318



AB Vilkyškių Pieninė continually invests in creation of new and development of the existing products. In 2008 special attention was dedicated to development of product assortment in AB Kelmės Pieninė, product presentation to consumers and development of existing products.

On 22 February 2006 Vilkyškių pieninė AB received the support of LTL 3,45 million from the European Union Structural Funds for the modernization of cheese production workshop and whey processing project

On 22 February **2006** the Minister of Agriculture signed an enactment, based on which AB Vilkyškių Pieninė received a financial support of up to LTL 3,45 million from the EU structural funds for realisation of the Project „Realisation of the EU requirements and modernisation of production“.

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

In the beginning of 2007 the Company realised the second stage of modernisation – the whey processing Project, which was financed from the EU structural funds. The remaining part of the investments was used for acquisition of the whey processing equipment.

In the beginning of 2006 the major shareholding of AB Modest was acquired by AB Vilkyškių Pieninė which currently holds 97% of AB Modest shares. This enabled the Company to supplement its product assortment with the „Mozzarella“ types of cheese.

On 10 August 2006 AB Modest and the National Settlement Agency under the Ministry of Agriculture signed a support agreement regarding allocation of 2,12 million LTL of the EU structural funds to AB Modest.

In June 2007 the whey processing workshop of Vilkyškių pieninė AB started operating. The total value of the mentioned workshop of Vilkyškių pieninė AB is more than 8 million LTL. Vilkyškių pieninė AB received the support of 3,45 million LTL from the European Union Structural Funds for the modernization of cheese production workshop and whey processing project. The first portion of 1,2 million LTL was received in 2007, the remaining funds shall

be received by the middle of 2009. Investments provided the company with possibility to increase far better the effectiveness of production and production quality control, moreover, it allowed effective reduction of waste. Until present, the Company has not carried out processing of whey. The new whey processing workshop is almost fully automated and has only two employees.

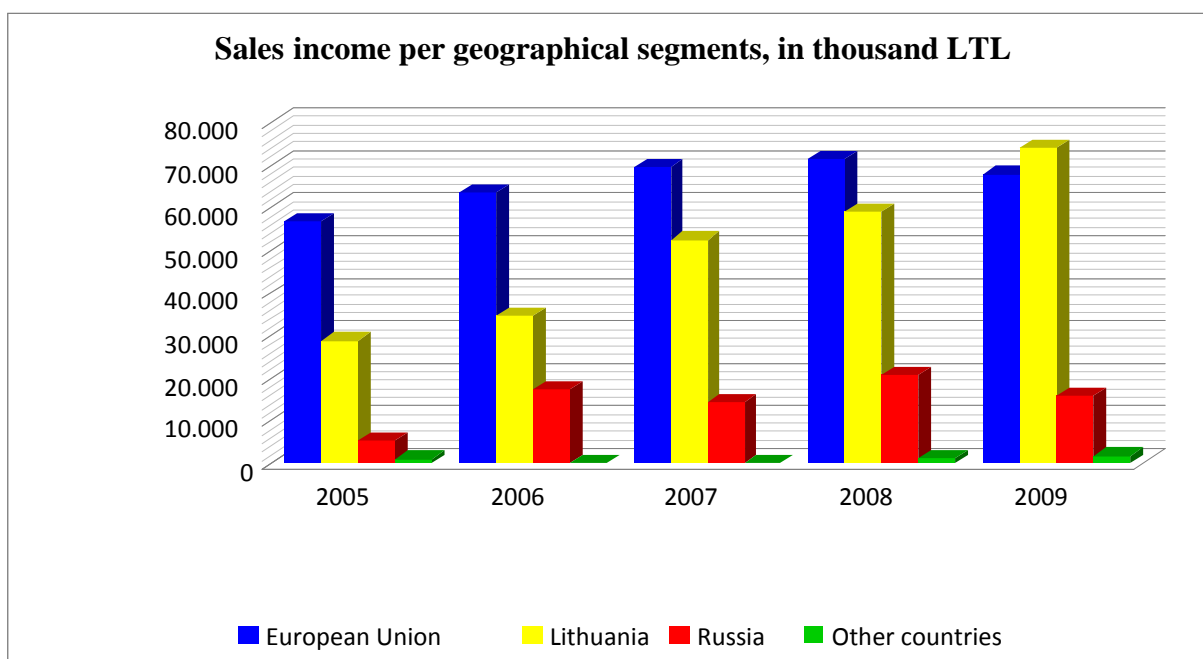
In 2007 the subsidiary of AB Vilkyškių Pieninė - AB Modest was granted a support of 2,1 million LTL from the EU structural funds, which were used for modernisation of specialised depot for transportation of milk and dairy products, modernisation of production equipment (the company installed new milk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

9. Sales markets

Consolidated income of Vilkyškių pieninė AB within the period of last 5 years according to the regions is as follows:

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

Market	2005	2006	2007	2008	2009
European Union	56,863	63,559	69,594	71,238	67,763
Lithuania	28,718	34,713	52,367	58,938	74,067
Russia	5,148	17,310	14,279	20,630	15,775
Other countries	980	137	34	1,175	1,713
Total	91,709	115,719	136,274	151,981	159,318



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

10. Supply

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

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

Sometimes Vilkyškių pieninė AB purchases raw milk from its direct competitors in Lithuania, including Rokiskio suris AB and Pieno zvaigždės AB, Zemaitijos pienas.

11. Real estate and other non-current assets

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

12. Risk factors related to the activity of the Issuer

The major risk factors related to the activity AB Vilkyškių pieninė Group are as follows:

Risk factors related to Company's business

- The main Company's activity is milk processing (production of fermented cheese). The main factors creating business risk are possible changes in the raw material and product markets, as well as legal, political, technological and social changes, which are directly or indirectly related to the business of Vilkyškių pieninė AB and which are likely to affect Company's cash flows and operating results.
- The Company is specializing in the production of cheese. The largest part of its income is received from the sale of cheese and cheese products. Due to this reason company's income and profit is sensitive to negatives changes in demand and (or) in cheese prices in the market (market risk). The price of cheese can also be negatively affected by the competition in the international and in local cheese market.
- The main raw material of the company is cow milk. The amount of milk sold to the milk producers of the European Union for processing is limited by the national milk quotas. The limitation of raw material supply may influence the lack of raw material and the increase of raw material prices. These changes can negatively affect Company's cash flows and operating results.
- Production of fermented cheese is a time consuming process which can take from 1 to 3 months. Such production particularity does not allow reacting quickly to rapid changes in the cheese market and this can negatively affect Company's cash flows and operating results.
- Company's credit risk is related to receivable amounts of trade. The risk that business partners would not meet their financial obligations is controlled by established

procedures of control. Credit risk, related to assets held in banks, is limited because the Company works only with the largest Lithuanian banks (mainly with AB SEB Bankas). As at 31 December 2009 the total liabilities and the total assets ratio was 0,69. Interest on all major loans are related to EUR LIBOR. The balance of financial liabilities amounted to 55,256 tLTL as at 31 December 2009. The loans are denominated in EUR. Repayment of loans is carried out as to time Schedule. There are no overdue payments.

- Foreign exchange risk. Operations with foreign currency are evaluated in LTL according to the exchange rate of operation date. Cash and liabilities denominated in foreign currency are evaluated in LTL applying exchange rate of the balance sheet formation date. Profit or loss from the currency exchange fluctuation is accounted in the profit (loss) statement. The main part of Company's income is received in EUR. The Company does not carry out such foreign currency transactions that could significantly affect the Company's financial results due to exchange rate fluctuations.

Risk factors related to the Company's branch of industry

Agricultural sector (including milk production) is highly regulated in the countries of the European Union. A price level of raw milk is regulated through limitation of its supply for processing and consuming, using interventional purchases of milk products and applying import duties for dairy products imported from non-EU countries, export subsidies for dairy products exported to non-EU countries, and invoking other interventional means. The World Trade Organization and other organizations, which support free trade, incite to reduce the level of regulation in the agricultural sector of the EU. The liberalization of milk sector can reduce price of raw milk and dairy products, reduce export subsidies of dairy products, increase import of dairy products, and increase competition in the market of dairy products among non-EU countries. These changes can negatively affect Company's cash flows and operating results.

Dairy products are produced from raw materials of animal origin. Epidemic diseases of livestock (e.g. kempinligė) can negatively affect the supply of materials for production of dairy products and decrease the demand for dairy products. These changes can affect the Company's cash flows and operating results.

13. Termination or reduction of production, which has had a material impact on the Issuer's operating results within the last 2 fiscal (business) years

Vilkyskiu pienine AB has not faced with such termination or reduction of production within the last 2 years.

14. The main investments of Vilkyskiu pienine AB during the last 4 years:

In 2006 the Issuer invested 3,487.6 tLTL in the modernization of cheese workshop, 2,927 tLTL of which were borrowed, and 560,6 tLTL were own funds.

In 2007 Vilkyskiu pienine AB invested about 7 million LTL in whey processing workshop, 1,3 million LTL in milk collection equipment and 0,5 million LTL in packaging and vacuum equipment.

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

In 2008 Vilkyskiai boiler-house was reconstructed and the company started building cheese ripening workshop.

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

15. Patents, licences, contracts

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

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

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

The company is constantly advised on the issues of product certification in Russia by O. B. Jarymova and L. N. Matusheva (О.Б. Ярымова, Л.Н. Матюшева), who work in Kaliningrad Centre of Standardization, Metrology and Certification. The analysis of technological process and production shows whether the company works in compliance with rules, standards and requirements and whether the production produced by the company is safe.

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

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

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

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

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

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

carried out in accordance with the requirements of the Russian Federal Veterinarian and Phytosanitarian Service.

16. Litigation and arbitration processes

The processes of litigation and arbitration are not raised against Vilkyškių pieninė AB.

17. Competitors

Based on the calculation of Vilkyškių Pieninė AB, the company holds about 15 percent of Lithuania’s cheese market, i.e. it ranks fourth among the producers, after Rokiškio Sūris AB, Pieno Žvaigždės AB and Žemaitijos Pienas AB. The Company holds approximately 12% of the local market among the companies producing fresh dairy products.

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

18. Dividends paid

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

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

Dividends	2005 (for 2004)	2006 (for 2005)	2007 (for 2006)	2008 (for 2007)	2009 (for 2008)
Dividends (LTL)	1,177,000	2,500,000	2,057,660	2,030,310	0
Dividends per share (LTL)	0.13	0.27	0.22	0.17	0
Number of shares	99,500	9,353,000	9,353,000	11,943,000	11,943,000

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

IV OTHER INFORMATION ABOUT THE ISSUER

19. Structure of the Issuer’s authorized capital

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

AB Modest structure of authorised capital

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

AB Kelmės Pieninė structure of authorised capital

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

20. Restrictions to transfer the securities

There are no restrictions to transfer the securities.

21. Shareholders

AB Vilkyškių Pieninė

The total number of shareholders as at 31 December 2008 was 695. The following were the major shareholders who had an ownership or held more than 5 per cent of Company's share capital:

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
Gintaras Bertašius	6,016,506	1	6,016,506
Linas Strėlis	1,015,000	1	1,015,000
SEB clients	2,483,577	1	2,483,577
UAB FMĮ Orion Securities clients	1,747,644	1	1,747,644
Non-controlling interest	680,273	1	680,273
Total capital	11,943,000	1	11,943,000

AB Modest

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

AB Kelmės Pieninė

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

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

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

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

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

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

Period		Price, Lt			Turnover, thousand Lt			Total turnover		Capitalisatio-
From	To	Max.	Min.	Last	Max.	Min.	Last	Unit.	Lt.	LTL
2006 05 17	2007 04 20	5,82	4,60	5,65	647,8	0	0	531 008	2 821 161,1	52 844 450
2007 01 01	2007 03 31	5,82	5,20	5,70	126,2	0	0	56 635	312 038,6	53 312 100
2007 04 01	2007 06 30	5,70	5,01	5,20	380,5	0	20,4	167 957	930 576,2	48 635 600
2007 07 01	2007 09 30	6,50	4,80	5,90	3 621,1	0	25,6	1 647 863	9 163 708,7	55 182 700
2007 10 01	2007 12 31	6,70	5,75	6,20	637,6	0	1,8	455 408	2 762 468,4	57 988 600
2008.01.01	2008.03.31	6,40	5,00	5,30	1 507,3	0	12,3	693 973	3 848 098,2	49 570 900
2008.04.01	2008.06.30	5,52	4,51	4,70	237,9	0	15,5	244 910	1 209 573,1	56 132 100
2008.07.01	2008.09.30	4,75	2,05	2,26	324,6	0	3,1	245 700	912 782,9	26 991 180
2008.10.01	2008.12.31	2,50	0,52	0,60	69,6	0	0	731 354	696 019,0	7 165 800
2009.01.01	2009.03.31	0,79	0,52	0,63	241,8	0	0,5	1 040 145	660 301,9	7 524 090
2009.04.01	2009.06.30	1,69	0,60	1,35	83,1	0	2,6	531 304	566 948,8	16 123 050
2009.07.01	2009.09.30	2,86	1,25	2,32	557,5	0	0	1 024 019	1 954 451,2	27 707 760
2009.10.01	2009.12.31	2,75	2,27	2,40	66,1	0	4,8	196 588	486 477,7	28 663 200

23. Shareholders who have special rights of control

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

24. Voting right restrictions

There are no restrictions of voting right.

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

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

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

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

27. Management Bodies of the Issuer

Board:

Name, surname	Education, speciality	Position held in the Issuer	Start of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	2006 01 30
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	2006 01 30
Rimantas Jancevičius	Further education, zoo - technician	Member of the Board, Stock Director	2006 01 30
Vilija Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director	2009 04 30
Andrej Cyba	Higher education	Member of the Board	2008 04 18
Linas Strėlis	Higher education	Member of the Board	2008 04 18

The Board of AB Vilkyškių pieninė will be elected at the general shareholders meeting on 30 April 2010.

Key administration staff of AB Vilkyškių Pieninė:

Name, surname	Education, speciality	Position held in the Issuer	Beginning of service*
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	2006 01 01**
Vilija Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director	2000 05 01
Rimantas Jancevičius	Further education, zoo - technician	Member of the Board, Stock Director	1996 01 02
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	1993 09 01
Arvydas Zaranka	Further education, Technologist of dairy products	Production Director	1995 07 30
Arminas Lunia	Higher education, Chemist	Sales Director	2007 08 20
Rita Juodikienė	Higher education, Engineer of Information Management	Head of Purchase Department	2002 09 23
Mindaugas Dūda	Higher education, IT engineer	Head of IT Department	2008 08 01
Rasa Trybienė	Higher education, Psychologist	Head of Personnel	2009 05 22
Lina Genienė	Higher education, Economist of International Trade	Chief Accountant	2008 09 29
Sigita Montvilaite	Further, Accounting	Deputy Chief Accountant	2006 12 14
Ligita Pudžiuvelytė	Higher education, Economist	Senior Economist	2004 05 20
Ina Baltrušienė	Higher education, Lawyer	Lawyer	2007 10 08

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

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

Key administration staff and management board of AB Modest

Name	Surname	Education, speciality	Position held in the Issuer	Start of cadence	Start of service in the company
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board	2006 09 04	
Arvydas	Zaranka	Further education, technology of dairy products	Member of the Board	2006 09 04	
Vilija	Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director	2009 04 28	
Vaidotas	Juškys	Higher education, IT engineer	Director	-	2009 09 24
Milana	Buivydienė	Higher education, Economics and organisation of agricultural production	Chief accountant	-	2006 07 04
Jurgita	Laurinaitienė	Higher education, Technology of food products	Head of production	-	2008 01 01

Key administration staff and management board of AB Kelmės Pieninė

Name	Surname	Education, speciality	Position held in the Issuer	Start of cadence	Start of service in the company
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board	2008 05 06	
Arvydas	Zaranka	Further education, technology of dairy products	Member of Board	2008 05 06	
Algirdas	Žukauskas	Higher education Zoo- engineer	General Director, member of the board	2008 05 06	2008 06 04
Asta	Mikalauskienė	Higher education Economist, Finance and Banking	Finance director		2007 07 17
Daiva	Vasiliauskienė	Further education, Bookkeeping	Chief Accountant		2009 07 01
Edita	Balčiūnienė	Higher education Engineer technologist	Production Director		2006 11 27
Algirdas	Guntarskis	Further education, Technician	Technical Director		2008 02 21

Information about participation in other companies activity:

AB Vilkyškių Pieninė

Name	Surname	Position	Other data - shares, participation in other companies activity	Shares held at AB Vilkyškių Pieninė
Gintaras	Bertašius	General Director, Chairman of the Board	Shareholder of ŪKB Šilgaliai (1 share), Chairman of the board of AB Modest, Chairman of the board of AB Kelmės Pieninė	6,016,506
Sigitas	Trijonis	Technical Director, member of the Board	has no other shares, does not participate in the activity of other companies	425,538
Rimantas	Jancevičius	Stock Director, member of the Board	has no other shares, does not participate in the activity of other companies	2,054
Vilija	Milaševičiūtė	Finance Director, member of the Board	Member of the board of AB Modest, has no other shares	7,718
Arvydas	Zaranka	Production Director	Member of the boards of AB Modest and AB Kelmės Pieninė, has no other shares	1,923
Lina	Genienė	Chief Accountant	has no other shares, does not participate in the activity of other companies	-
Arminas	Lunia	Sales Director	has no other shares, does not participate in the activity of other companies	-
Andrej	Cyba	member of the Board	Member of the board of asset management group of Invalda	-
Linus	Strėlis	member of the Board		1,015,000

AB Modest

Name	Surname	Position	Other data - shares, participation in other companies activity
Gintaras	Bertašius	Chairman of the Board	Shareholder of ŪKB Šilgaliai (1 share), General Director and Chairman of the Board of AB Vilkyškių Pieninė- 6 016 506 shares, Chairman of the Board of AB Kelmės Pieninė
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė - 1 923 shares, Member of the Board of AB Kelmės Pieninė
Vilija	Milaševičiūtė	Member of the Board	Shareholder of AB Vilkyškių Pieninė – 7 718 shares, Member of the Board of AB Vilkyškių Pieninė
Vaidotas	Juškyš	Director of AB Modest	has no other shares, does not participate in the activity of other companies
Milana	Buivydienė	Chief Accountant	has no other shares, does not participate in the activity of other companies

AB Kelmės Pieninė

Name	Surname	Position	Other data - shares, participation in other companies activity
Gintaras	Bertašius	Chairman of the Board	Shareholder of ŪKB Šilgaliai (1 share), General Director and Chairman of the Board of AB Vilkyškių Pieninė- 6 016 506 shares, Chairman of the Board of AB Modest
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė - 1 923 shares, Member of the Board of AB Modest
Algirdas	Žukauskas	Director, Member of the Board	Shareholder of ŽŪK Džiaugsmelis (1 share)
Asta	Mikalauskienė	Finance Director	has no other shares, does not participate in the activity of other companies
Edita	Balčiūnienė	Production Director	has no other shares, does not participate in the activity of other companies
Algirdas	Guntarskis	Technical Director	has no other shares, does not participate in the activity of other companies
Daiva	Vasiliauskienė	Chief Accountant	has no other shares, does not participate in the activity of other companies

28. Employees

Average salary per staff groups:

31 December 2009

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	13	10	3	0	0	6,147
Key specialists	60	26	24	10	0	2,914
Specialists	86	21	46	19	0	2,005
Workers	576	16	256	252	52	1,376
	735	73	329	281	52	1,568

31 December 2008

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	14	10	4	0	0	7,254
Key specialists	57	25	22	10	0	3,259
Specialists	73	18	39	16	0	2,277
Workers	568	16	256	247	49	1,522
	712	69	321	273	49	1,724

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

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

V DATA ABOUT THE OPENLY PUBLISHED INFORMATION

30. Summary of significant events in 2009

The general shareholders meeting of AB Vilkyškių Pieninė, held on 30 April 2009, was acquainted with the Company's annual report for 2008, an independent auditor's report on the Company's financial statements for 2008, approved the Company's financial statements for 2008, recalled the Board member Ramūnas Šniepis and elected a new member Vilija Milaševičiūtė. Furthermore, regulations of the activity and staff of the audit committee were approved. Alius Jakubėlis was elected as an independent member of the audit committee. The Board is authorized to determine the remuneration for activity of the independent member of the Board. The Chief Executive Officer of the Company is authorized to sign a contract with the independent member of the Board. Ligita Pudžiuvelytė and Birutė Bazilienė are elected as members of the audit committee.

The general shareholders meeting of AB Modest, held on 7 July 2009, took a decision to increase the Company's share capital from 128,408 LTL to 692,710 LTL, by issuing 564,302 ordinary shares. The deadline for signing a shares subscription agreement ended on 25 July 2009. The total amount of subscribed shares amounted to 488,710, and based on the shareholders decision, if not all the shares are subscribed during the determined period, the share capital shall be increased by the total nominal value of the subscribed shares. The Company's share capital was increased up to 617,118 LTL.

Since 1 January 2010, the legal status of the subsidiary UAB Modest has changed into a stock company.

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

31. Announcement of Vilkyškių pieninė AB concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2009

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

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

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

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

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

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

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

<p>of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>		<p>implemented practice (for instance, prior to the announcement of company's annual report to the shareholders, each member of collegial body informs the collegial body about the in-service trainings, relevant to their service on the collegial body, which she/he has attended within the last accounting year). During the meetings of the shareholders, curriculum vitae of candidates to become members of the Management Board are presented, which include such information as their education, professional background, etc. Information about the composition of the Management Board is set out in the reports of the company.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>The company follows the recommendations set out in this clause. The members of the Management Board of the company have required diversity of knowledge, judgment and experience to complete their tasks properly.</p> <p>The members of Audit Committee have relevant experience and a recent knowledge in the fields of accounting and audit.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>Members of the Management Board constantly take part in various refresher courses and seminars where they are provided with the information about the essential changes in legislation that regulates the activity of the company. Moreover, in case of necessity, the members of the Management Board either individually or during the meetings of the Management Board are also informed about the other changes, which have an impact on the activity of the company.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient⁴ number of independent⁵ members.</p>	<p>No</p>	<p>The company does not follow the Recommendation 3.6 of the Governance Code as the company neither has defined the independence criteria of a member of the Management Board nor has discussed the content of "sufficiency" concept of independent members.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his</p>	<p>No</p>	<p>The company has not defined the independence criteria of a member of the Management Board.</p>

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

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

<p>judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory 	<p style="text-align: center;">Not applicable</p>	<p>The company has not defined the independence criteria of a member of the Management Board.</p>
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<p>board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	No	The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.⁶.</p>	Not applicable	Members of the Management Board are not remunerated for their service on the Management Board (however, such possibility is set out in the Articles of Association).

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

The general shareholders' meeting should approve the amount of such remuneration.		
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting		
The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁸	Yes	The Management Board ensures the integrity and transparency of the company's financial statements and the control system, evaluates the project of company's annual financial statements and the project of profit (loss) distribution and submits them to the general shareholders' meeting.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Basing on company's data, the members of the Management Board act in good will with regard to the company, follow the interests of the company, not the interests of their own or of the third parties, act in conformity with the principles of fairness and prudence, under an obligation of confidentiality and with due responsibility, thus they aim at maintaining the independence of decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the	Yes	In the year 2009 the members of the Management Board held the meetings of the Management Board (each meeting had the proper quorum) and each member devoted sufficient time to perform her/his duties as a member of the Management Board.

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

⁷ See Footnote 3.

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

<p>event a member of the collegial body should be present in less than a half⁹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>		
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The management bodies of the company, prior to making material decisions, discuss their impact on shareholders and seeking to ensure that all shareholders are properly informed on the company's affairs, strategies, risk management, announce the main information about the company's activity in the periodical reports.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The management bodies of the company enter into transactions following the legislation and approved Articles of Association, for the attainment of benefit and welfare to the company.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies¹⁰. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the</p>	<p>Yes</p>	<p>In all senses the Management Board makes decisions on the interest of the company. The Management Board of the company and its committees are provided with entire resources that are necessary to exercise their functions. Under the necessity, the employees of the company take part in the meetings of the Management Board and committees and present all the necessary information that is relevant to the issues under discussion. Remuneration committee ensures that consultants and specialists, who provides information on market standards for remuneration systems, do not at the same time advise the human resources departments of the company, members of executive and management bodies on the issues related with company.</p>

⁹ It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

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

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

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

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

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

<p>obtained by executive directors and members of the management bodies from the affiliated companies;</p> <p>3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company.</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation.</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant</p>	<p>Yes</p>	<p>The company substantially follows the provisions of these recommendations. Audit Committee exercises independent judgement and integrity when exercising its functions. Its key objective is to observe the preparation process of financial statements, to supervise performance of audit of financial accountability of the company, to supervise how Audit Company keeps to the principles of independency and objectivity, and to supervise the effectiveness of internal control and risk management systems. The Committee provides the Management Board with help while observing (i) the quality and consistency of financial, accounting and other relevant documents, (ii) the qualification of the independent auditor, his/her independency and proper performance of his/her office, (iii) the implementation of internal control.</p>
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<p>and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and</p>	<p>No</p>	<p>The company has no practice of assessment of activities of the Management Board and disclosure of information on its activity. The Management Board plans to conduct the assessment of its activities in the future.</p>

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

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

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

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

<p>the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>		<p>transfer their right to vote to other persons with whom an agreement on the transfer of the voting right has been concluded. Members of the Management Board, chief executive officer of the company and the auditor who prepared the auditor's opinion and audit report may attend and speak at the General Meeting. A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision. These notices are included into the quorum of the meeting and into the voting results.</p>
<p>6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>No later than 21 day before the General Shareholders' Meeting, shareholders are provided with an opportunity to familiarize with documentation of the Company related to the agenda of the meeting, including draft decisions and application submitted to the Management Board by the initiator of the General Shareholders' Meeting. If the shareholder requests in writing, chief executive office of the Company no later than 3 days from the receipt of a written request hands in all draft decisions of the meeting to the shareholder against the signature and sends by registered mail. The draft decisions should be referred to whose initiative they are involved. If the initiator of the draft decision submitted the explanations of the draft decision, these are attached to the draft decision.</p> <p>No later than 21 day before the Meeting the following documents are placed on the website of the company and NASDAQ OMX Vilnius in Lithuanian and English languages:</p> <ol style="list-style-type: none"> 1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting 2. Audited annual financial statements and auditor's report 3. Annual Report
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>A shareholder, who has the right to vote and who is familiar with the agenda, may give written notice to the General Shareholders' Meeting of her/his will "for" or "against" on every single decision.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>No</p>	<p>Until 01/01/2010 the Company has not applied the means of modern technologies, however, it plans to do it in the future.</p>
<p>Principle VII: The avoidance of conflicts of interest and their disclosure The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding</p>		

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

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

<p>termination under contracts for executive directors and members of the management bodies.</p>		
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) When the pension scheme is a defined-benefit scheme, changes in the directors' 	<p>No</p>	

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

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

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

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

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