ŽEMAITIJOS PIENAS, AB

Interim consolidated unaudited
financial statement for the period of 6 months, 2011

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(All amounts are indicated in thousands of litas unless provided otherwise)

Balance sheet

	Group	
ASSETS	**30-06-2011**	**31-12-2010**
Fixed assets		
Intangible assets	331	23
Tangible assets	64,526	65,357
Investments for sale	-	-
Investments into subsidiaries	14	4
Loans granted	6,037	3,760
Own shares	1	-
Deferred profit tax assets	1,605	1,605
Total amount of fixed assets	**72,514**	**70,749**
Current assets		
Stock	64,348	62,081
Advance payments	663	641
Receivables from the buyers	37,965	36,265
Other receivables	4,434	6,542
Deposits	-	5,000
Cash and cash equivalents	6,764	8,766
Total amount of current assets	**114,174**	**119,294**
ASSETS IN TOTAL	**186,688**	**190,043**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	48,375	48,375
Required reserve	4,838	4,838
Other reserves	15,000	10,000
Undistributed profit	48,835	56,842
Equity of the shareholders of the parent company	**117,048**	**120,055**
Minority interest	1,840	1,840
Equity in total	**118,888**	**121,895**
Long-term liabilities		
Support received	2,108	2,678
Loans	7,267	8,838
Liabilities arising from the financial lease	6,583	6,575
Liabilities arising from the deferred profit tax	784	784
Other long-term liabilities	1,879	1,879
Total amount of long-term liabilities	**18,621**	**20,754**
Short-term liabilities		
Loans	835	1,670
Liabilities arising from the financial lease	2,328	4,673
Trade debts	28,610	25,652
Payable profit tax	331	2,822
Other payable amounts	17,076	12,578
Total amount of short-term liabilities	**49,180**	**47,394**
Liabilities in total	**67,801**	**68,148**
EQUITY AND LIABILITIES IN TOTAL	**186,688**	**190,043**

(All amounts are indicated in thousands of litas unless provided otherwise)

Profit (loss) statement

	Group			
	January - June, 2011	**January - June, 2010**	**April - June, 2011**	**April - June, 2010**
Sales	247,556	195,713	131,367	103,724
Sales cost price	(200,283)	(158,866)	(103,929)	(81,557)
GROSS PROFIT (LOSS)	**47,273**	**36,847**	**27,438**	**22,167**
Operating expenses	*(43,516)*	*(33,536)*	*(25,302)*	*(19,550)*
Incl. sales expenses	(27,568)	(19,345)	(14,616)	(11,783)
Incl. general and administrative expenses	(15,949)	(14,191)	(10,686)	(7,767)
Other operating income	3,094	2,370	1,695	1,884
Other operating expenses	(2,796)	(3,264)	(1,504)	(2,045)
OPERATING (LOSS) PROFIT	**4,055**	**2,417**	**2,327**	**2,456**
Difference between the fair value of the net assets, which belong to the Group, and the acquisition price of the business affiliation				
Income from financial operations	339	597	93	221
Expenses of financial operations	(318)	(379)	(106)	(171)
PROFIT (LOSS) BEFORE TAX	**4,076**	**2,635**	**2,314**	**2,506**
Profit tax benefits (expenses)	(1,583)	(1)	(959)	(1)
NET PROFIT (LOSS)	**2,493**	**2,634**	**1,359**	**2,506**

(All amounts are indicated in thousands of litas unless provided otherwise)

Statement of changes in equity

Group

	Share capital	Required and other reserves	Undistributed profit	Equity of the shareholders of the parent company	Minority interest	In total
31 December 2009	**48,375**	**4,838**	**50,465**	**103,678**	**2,626**	**106,304**
Modification of the previous year	-	-	(2)	(2)	-	(2)
Liquidation of subsidiaries			(523)	(523)	(721)	(1,244)
Dividends, tantiemes paid			(2,600)	(2,600)	-	(2,600)
Net profit of the 1st half of a year			2,634	2,634	(10)	2,624
30 June 2010	**48,375**	**4,838**	**49,974**	**103,187**	**1,895**	**105,082**
31 December 2010	**48,375**	**14,838**	**56,842**	**120,055**	**1,840**	**121,895**
Reserves		5,000	(5,000)		-	-
Dividends, tantiemes paid			(5,500)	(5,500)	-	(5,500)
Net profit of the 1st half of a year			2,493	2,493	-	2,493
30 June 2011	**48,375**	**19,838**	**48,835**	**117,048**	**1,840**	**118,888**

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(All amounts are indicated in thousands of litas unless provided otherwise)

Cash flow statement

	Group	
	January - June, 2011	**January - June, 2010**
Net operating cash flows		
Net (loss) profit	2,493	2,634
Modification of the result of the previous year	-	(2)
Modifications of the net (loss) profit		
Depreciation and amortization	9,046	9,428
Amortization of the support received	(570)	(635)
Loss (profit) from the sale and write-off of fixed assets	(254)	(86)
Profit tax expenses	-	-
Impairment of receivables	-	4,859
Impairment of fixed assets	-	-
Write-off of the stock to the net realizable value	4,996	477
Other financial (income) expenses	(50)	(85)
Expenses arising from the liquidation of subsidiaries	-	(1,244)
	15,661	**15,346**
Changes in the working capital:		
Increase (in stock)	(7,263)	2,043
Decrease (increase) in receivables from the buyers	(1,700)	(4,757)
Decrease (increase) in advance payments	(23)	(61)
(Increase in) other receivables	1,506	(1,051)
Changes in deposits	5,000	4,062
Increase (decrease) in trade debts	4,669	6,278
Increase (decrease) in other payable amounts	(2,475)	2,341
Profit tax paid		-
Net operating cash flows	**15,375**	**24,201**
Cash flows from investment operations		
Tangible and intangible assets (acquisition)	(8,596)	(4,323)
Revenues from the sale of tangible assets	328	346
Acquisition of subsidiaries	(10)	(10)
Sale of investments for sale	-	-
Repaid granted loans	1,402	771
Loans granted	(3,077)	(1,583)
Interest received	251	359
Net cash flows from investment operations	**(9,702)**	**(4,440)**
Cash flows from financial operations		
Payment of dividends, tantiemes	(2,731)	(2,600)
Support received	-	683
Loans received	5,179	-
Repaid loans	(7,585)	(17,932)
Payment of the liabilities arising from the financial lease	(2,337)	(2,718)
Interest paid	(201)	(274)
Net cash flows from financial operations	**(7,675)**	**(22,841)**
Net increase (decrease) in cash flows	**(2,002)**	**(3,080)**
Cash and cash equivalents in the beginning of the period	**8,766**	**24,629**
Cash and cash equivalents at the end of the period	**6,764**	**21,549**

(All amounts are indicated in thousands of litas unless provided otherwise)

1. GENERAL INFORMATION

Žemaitijos pienas, AB (hereinafter referred to as the Company) is a public limited liability company registered in the Republic of Lithuania. Its registered office is situated at the address Sedos st. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them on the Lithuanian and foreign markets. The Company has a number of wholesale units with warehouses and vehicles in the biggest cities of Lithuania. The Company commenced its operations in the year 1984. The Company's shares are traded on the current list of Vilnius Stock Exchange.

On 30 June 2011, the Company's share capital was 48,375 thousands of litas composed of 48,375,000 ordinary registered shares with a nominal value of 1 litas per share.

All of the shares are issued, subscribed and paid up.

On 31 December 2010, the Company did not own any shares of itself, but on 30 June 2011, the Company had acquired it`s own shares by 1027 of litas.

On 30 June 2011, the Group was composed of Žemaitijos pienas, AB and its subsidiaries (hereinafter - the Group):

Subsidiary	Registered office of the Company	Interest of the Group's shares	Consolidated interest	Investments (cost price) in 2010	Net assets 30 June 2011	Main activities
Šilutės Rambynas, ABF	Klaipėdos st. 3, Šilutė, Lithuania	87.82 %	87.82 %	10,878	12,300	Production and sale of cheese
Tarpučių pienas, ŽŪB	Klaipėdos st. 3, Šilutė, Lithuania	12 %	100 %	60	418	Milk collection
Muižas pienas, SIA	Skaitkalnes st. 1, Riga, Latvia	32 %	-	4	-	Wholesale and retai
				10,942		

According to IFRS, a subsidiary is a company controlled by another (parent) company, whereas the control means the right to manage the company's financial and operating policy in order to obtain benefits from its activities. Consequently, Tarpučių pienas, ŽŪK is considered to be a subsidiary because its sales to the Company constitute nearly 100 percent and the Company has the key control although it manages less than 50 percent of the shares.

On 30 June 2011, the Group had 1582 employees (on 30 June 2010 – 1568 employees).

2. ACCOUNTING PRINCIPLES

The basis for eligibility of the financial statement

This consolidated financial statement has been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU).

The basis for preparation of the financial statement

The submitted financial statement has been prepared on the acquisition cost price basis, except for the revaluation of certain financial instruments at their fair value.

The financial year of the Group's companies coincides with the calendar year.

The financial statement is submitted in the national currency of Lithuania - the litas (LTL).

Here are the most significant accounting policies:

The principles of consolidation and business affiliation

The consolidated financial statement covers the financial statements of the Company and its controlled subsidiaries at a certain date. The control is deemed to be present when the Company has the power to control the financial and operating policy of another company, wherein it has invested its capital, in order to obtain some benefits thereof.

The acquisition of subsidiaries is accounted for using the purchase method. The acquisition cost price is composed of the fair value of transferred assets, issued equity instruments or assumed liabilities on the day of acquisition as well as expenses related with this acquisition directly. The assets and liabilities of the acquired company, which meet three recognition criteria under IFRS, are assessed at their fair value on the day of acquisition. The primary assessment of the subsidiary's assets and liabilities is modified within twelve months as of acquisition, having received additional data, which helps to assess more accurately the fair value of the assets and liabilities of this subsidiary.

Any positive difference between the acquisition cost price and the fair value of the acquired company's net assets is recognized as goodwill. Any negative difference between the acquisition cost price and the fair value of the acquired company's net assets is recognized as income of that period and is accounted for in the profit (loss) statement.

The interest of the minority shareholders is composed of their portion of the fair values of the assets and liabilities.

The financial results of the subsidiary, which has been acquired (sold) within a year, are included in the consolidated profit (loss) statement from the day of its acquisition until its sale (if any).

The financial statements of the subsidiaries are modified in order to conform to the accounting principles of the Group, should they be different.

All the significant transactions between the Group's companies, balance, income, expenses and undistributed profit (loss) from mutual transactions are eliminated from the consolidated financial statement.

Investments in the subsidiaries

Investments in the subsidiaries are accounted for in the Company's balance sheet at their acquisition cost price. The dividends of the subsidiaries are recognized as income only to the extent they are paid from the post-acquisition profit of the subsidiary. The portion of the

dividends that exceeds such profit is deemed to be the coverage of investment and is recognized as a reduction in the investment cost price.

Intangible assets

Intangible assets are initially recognized at their acquisition value. Intangible assets are recognized if it is probable that the Group and the Company will receive in the future some economical benefits related with these assets and if the value of these assets can be measured reliably. The Group and the Company does not have intangible assets of an indefinite useful life; therefore after their primary recognition, intangible assets are accounted for at their acquisition value, less accumulated amortization and impairment loss, if any. Intangible assets are amortized using the straight-line method over the estimated useful life. The amortization expenses of intangible assets are included into the operating expenses.

Software

The acquisition costs of new software are capitalized and recognized as intangible fixed assets if these costs are not a component of hardware. Software and licenses are amortized within a period of 3 years.

The costs, which are incurred in restoring or maintaining of the planned economic benefits from the operation of the existing software systems, are recognized as costs in the period when maintenance and support works are performed.

Tangible assets

Tangible assets are accounted for at their acquisition cost price, less accumulated depreciation and impairment.

The intangible fixed assets, which are being constructed, are accounted for in item 'Incomplete Constructions'. Such assets are accounted for at their acquisition cost price, less estimated impairment loss. The acquisition cost price covers the expenses on design, construction, installation of mechanisms and equipment and other direct expenses.

The depreciation of tangible fixed assets other than the constructions in progress is calculated over the estimated useful lives using the straight-lien method. At the end of each year, the Group and the Company review the useful lives of tangible fixed assets, balance value and depreciation method and recognize the impact of the changes in assessment, if any, prospectively. The estimated useful lives of tangible fixed assets are as follows:

Buildings: 20 - 40 years

Machinery and equipment: 5 years

Vehicles and other equipment: 4 - 10 years

The assets, whose useful lives are longer than one year and the acquisition value is not less than 3000 litas, are classified as fixed assets.

The tangible fixed assets, which have been acquired under financial lease contracts, are depreciated over the useful life using the same method for calculating of depreciation as that of the private property.

Profit or loss arising from the sales of fixed assets is calculated as the difference between the sales income and the balance value of these assets and is recognized in the profit (loss) statement of that year.

Repair costs are added to the book value of tangible fixed assets if it is probable that the Group's companies will receive economic benefits from these costs in the future, and if they can be measured reliably. All other repair and service costs are recognized as expenses in the profit (loss) statement at the time they occur.

Investment assets

The Group company's investment assets are composed of land and buildings, which are leased and earn income thereof, and are not used for the main operations of the Group's companies. Investment assets are accounted for at their acquisition value, less accumulated depreciation and estimated impairment loss.

Depreciation is calculated using the straight-line method over 20 - 40 years of useful life.

Any transfers to/from investment assets are performed only when the purpose of these assets changes.

Impairment of tangible and intangible assets

On each financial reporting date the Group's companies review the balance value of tangible and intangible fixed assets in order to determine whether there are any signs that the value of these assets has reduced. If any such signs exist, the Group's companies measure the recoverable value of these assets in order to evaluate the impairment (if any). When it is impossible to measure the recoverable value of the assets, the Group's companies calculate the recoverable value of the income-generating asset group, which includes these assets. Should it be possible to determine a reliable and consistent allocation basis, the assets of the Group's companies are allocated to separate income-generating asset units or the assets of the Group's companies are allocated to smaller income-generating asset groups, with respect to which it is possible to determine a reliable and consistent allocation basis.

On each financial reporting date and when there are signs of impairment, the Group's companies carry out impairment tests of intangible fixed assets, whose useful life is indefinite, and of intangible fixed assets, which are not yet ready for use.

The recoverable amount is the higher value between the fair value, less sales expenses, and the using value. In assessing of the using value, the expected future cash flows are discounted to the current value using the pre-tax discount rate under current market conditions, existing cash time value and the risks associated with the assets, which has not been taken into account in assessing of the future cash flows.

If the estimated recoverable value of the assets (or income-generating asset group) is lower than the book value of these assets, the book value of these assets is reduced to the recoverable value of these assets (or income-generating asset group). The impairment loss is recognized immediately in the profit (loss) statement unless these assets have previously been revalued. In that case, the impairment loss is accounted for as the reduction in the revaluation reserve.

Should the value of assets increase after the recognition of the impairment loss, the book value of assets (income-generating asset group) is increased to the newly calculated recoverable value of assets but in the way that the increase would not exceed the book value of these assets (income-generating asset group), if the impairment loss in the previous year had not been recognized. The recovery of the asset impairment is recognized in the profit (loss)

statement immediately unless these assets had been revalued previously. In that case, the recovery of impairment is accounted for as the increase in the revaluation reserve.

Stock

On the primary recognition, the stock is accounted for at its acquisition/production cost price. In subsequent periods, the stock is accounted for at a lower net probable selling price or acquisition/production cost price. The cost price is established using FIFO method. The cost price of incomplete constructions and production covers the expenses on raw materials, work and other direct expenses as well as the value added expenses related with production. The net probable selling price means the estimated selling price in the ordinary course of business, less estimated production completion and probable selling expenses.

Financial assets

The Group and the Company recognize financial assets in the balance sheet when the Group and the Company become a party to the contract for some financial instrument.

Loans and receivables

Trade amounts, loans and other receivables with fixed or determinable payments, which are not traded on the active market, are classified as 'Loans and receivables'. Loans and receivables are initially recognized at their fair value in the balance sheet. In subsequent periods, those financial assets are accounted for at their amortized cost price using the effective interest rate method, less any recognized impairment loss, which reflects unrecoverable amounts.

The effective interest rate method

The effective interest rate method refers to the method for calculating of the amortized cost price of financial assets and allocation of the interest income during a certain period of time. The effective interest rate means the interest rate that discounts accurately the estimated future cash flows over a certain period of time or over a shorter period of time.

Impairment of financial assets

On each financial reporting date the Group assesses financial assets in order to determine whether there are any signs that the value of these assets has reduced. The value of financial assets reduces in presence of objective factors resulting from one or more events that occurred after the primary recognition of these financial assets, which have affected the calculated future cash flows of these financial assets. The impairment loss resulting of financial assets, which is accounted for at its amortized cost price, is the difference between the book value of financial assets and the current value of the assessed future cash flows calculated using the effective interest rate estimated at the primary recognition.

The book value of all the financial assets is reduced directly by the estimated impairment loss amount, other than receivables from trade, whose book value is reduced via the deferral account. Should it become impossible to recover a trade debt, this amount is written off via the deferral account. The deferral account is reduced by the recovered amounts, which have been written off previously after the balance date. Any changes in the book value of deferrals are recognized in the profit (loss) statement.

Should the amount of the assessed impairment loss decrease after the balance date and this decrease can be objectively related to the events that occurred after the recognition of the

assessed impairment loss, then this recognized impairment loss is recovered via the profit (loss) statement in such a way that the investment book value would not exceed the amortized cost price on the day of the assessed impairment loss recovery, if the impairment loss had not been recognized in the previous periods.

Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand and money in bank accounts, deposits upon demand and other short-term liquid investments (up to three months), which can be easily exchanged for precise cash amounts and which are subject to the risk of negligible changes in their value.

Financial liabilities

Financial liabilities are any contractual liabilities to deliver cash or other financial assets to another entity or to exchange financial instruments with another enterprise under the conditions that are potentially unfavourable or derivative or the contract of a non-derivative instrument, which can be purchased in exchange of some equity instruments of the enterprise itself.

Financial liabilities

Financial liabilities are ascribed to the financial liabilities estimated at their fair value in the profit (loss) statement or other financial liabilities.

Other financial liabilities

Other financial liabilities, including loans, are recognized at their fair value, less transaction costs. In subsequent periods, other financial liabilities are accounted for at their amortized cost price, calculated using the effective interest rate method. Interest expenses are recognized using the effective interest rate method.

The effective interest rate method

The effective interest rate method refers to the method for calculating of the amortized cost price of financial liabilities and allocation of the interest income during a certain period of time. The effective interest rate means the interest rate that discounts the estimated future cash flows accurately over a certain period of time or over a shorter period of time.

The fair value of financial instruments

The fair value reflects the value of financial instruments, at which assets can be sold or liabilities can be covered. In cases where the management believes that the amortized cost price of financial assets and financial liabilities is considerably different from their fair value,

the fair value of such financial assets and liabilities is disclosed separately in the comments of the financial statements.

Grants

Grants are accounted for on an accrual basis, i.e. received grants or parts thereof are recognized as having been used over the periods, in which the expenses related with these grants are incurred.

Asset-related grants

Asset-related grants include the grants received in the form of fixed assets or grants for buying of fixed assets. Grants are accounted for at the fair value of the received assets and subsequently recognized as income over the useful life of certain fixed assets.

Income-related grants

Income-related grants include the grants for compensating of the costs and loss of income as well as all other grants, which have not been ascribed to the asset-related grants.

The grant is recognized when it is actually received or when there is reasonable assurance that it will be received.

Lease

Lease is classified as the financial lease when basically all the risks and benefits related with the title are transferred under the contract of lease. The lease of activities does not fall into the concept of the financial lease.

The Group and Company as a lessor

Any income under the contract of lease of activities are recognized on the straight-line method over the entire leasing period.

The Group and Company as a tenant

The assets under the financial lease contract are recognized as assets at the fair value of the leased assets in the beginning of the lease or the current value of the minimum lease payments, if it is lower. A corresponding liability towards the lessor is reflected in the balance sheet as the liability under the financial lease contract. Financial expenses (interest expenses), i.e. the difference between the total payable amounts and the fair value of the assets acquired, are recognized as expenses in the profit (loss) statement over the leasing period using the constant interest rate.

Payments under the contract of lease of activities are recognized as expenses in the profit (loss) statement on the straight-line method over the entire leasing period.

(All amounts are indicated in thousands of litas unless provided otherwise)

Recognition of income

Income is evaluated at the fair value of the received or receivable assets for the goods or services, excluding the value added tax, less rebates and concessions. Income is recognized on an accrual basis. Income is accounted for and reflected in the financial statements, regardless of revenues, i.e. when they are earned.

Income from the sale of goods

Income from the sale of goods is recognized when the following conditions are met:

• the Group has transferred to the buyer a significant portion of risk and the benefits of the title to the goods;

• the Group has no managerial rights associated with the title and has no longer control over the goods sold;

• the income amount can be measured reliably;

• it is likely that the Group will receive economic benefits associated with the transaction, and the transaction-related expenses, which have been incurred or shall be incurred in the future, can be measured reliably.

Income from services

Income from services is recognized when the service is provided.

Income from interest is recognized on an accrual basis, taking into account the balance of the debt and the applicable effective interest rate. Income from the interest received is presented in the cash flow statement as cash flows from investment activities.

Income from dividends is recognized when the shareholders become entitled to receive dividends. Income from the dividends received is presented in the cash flow statement as cash flows from investment activities.

Recognition of expenses

Expenses are recognized in the profit (loss) statement on an accrual basis when incurred.

Foreign currency

Transactions in foreign currencies are converted into the litas according to the official exchange rate established by the Bank of Lithuania on that day, which approximately equals to the market currency exchange rate. Monetary assets and liabilities are converted into the litas at the exchange rate of the reporting day.

The following currency exchange rates were used in preparing of the balance sheet:

30 June 2011	31 December 2010
1 EUR = LTL 3,4528	1 EUR = LTL 3,4528
1 LVL = LTL 4,8703	1 LVL = LTL 4,8643
1 USD = LTL 2,4013	1 USD = LTL 2,6099

The differences in the exchange rates resulting from the transactions in foreign currency are included in the profit (loss) statement at the moment they occur. The profit or loss resulting from the changes in the currency exchange rates on converting of monetary assets and liabilities into the litas are covered in the profit (loss) statement.

Deferrals

Deferrals are recognized when the Group and the Company has a legal obligation or an irrevocable commitment arising from the past committing event and it is likely that the funds will be spent to cover these liabilities, and it is possible to determine the amount of such liabilities.

Taxes

Profit tax expenses consist of the profit tax expenses and the deferred profit tax of the current year.

Profit tax

The taxable profit differs from the profit presented in the gross income statement due the elements of expenses and income that do not reduce or increase the taxable profit. In 2009, the Group was subject to the profit tax of 20 percent. From 1 January 2010, the profit tax rate in Lithuania shall be 15 percent.

Deferred profit tax

The deferred profit tax is accounted for in the balance sheet. Deferred tax assets and liabilities are recognized for future tax purposes, noting the differences between the book value of assets and liabilities in the financial statement and their respective tax bases. Deferred tax liabilities are recognized with respect to all temporary differences, which will increase the taxable profit, and the deferred tax assets are recognized only to the extent that is likely to reduce the future taxable profit. Such assets and liabilities are not recognized if temporary differences are related to goodwill (or negative goodwill), or if the assets or liabilities recognized at the time of a transaction, which is not related with business affiliation, do not affect the taxable or financial profit.

The deferred profit tax assets are reviewed on the financial reporting date and are reduced if it is not probable that the Group will have sufficient taxable profit to realize these assets in the future to the amount, which is expected to reduce the taxable profit in the future.

Deferred tax assets and liabilities are assessed using the tax rate applicable in the year, in which it is expected to cover or pay these temporary differences, for the purpose of the corporate profit tax calculation. Deferred tax assets and liabilities are offset when they relate to the taxes established by the same institutions and when the Group intends to cover the payable taxes at their net value.

Profit tax and deferred profit tax in the reporting period

Expenses or income from the profit tax and deferred profit tax are accounted for in the profit (loss) statement, except when they are related to the items accounted for in the shareholders' equity. Then, deferred taxes are also accounted for in the shareholders' equity.

Segments

A business segment in this financial statement is an integral segment of the Group and the Company engaged in the production of a product or providing of a service or a group of related products or services, whose risk and profit differ from other business segments.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for the contingent liabilities in business affiliates. They are described in the financial statements, except when the probability that the sources, which provide economic benefits, will be lost is very small.

Contingent assets are not recognized in the financial statements but they are described in the financial statements when it is likely that income or economic benefits will be obtained.

Post-balance events

Post-balance events, which provide additional information about the Group's situation on the reporting date (adjusting events), are reflected in the financial statements. Post-balance events, which are not adjusting events, are described in the comments when their impact is significant.

Related parties

The parties related to the Group and Company refer to the shareholders, employees, Board members, their close relatives and companies that control the Company directly or indirectly via an intermediary or are controlled individually or jointly with any another party, which is also recognized as a related party, provided that this relationship allows one party to control the other party or to exercise significant influence over the other party in making financial and management decisions.

3. MAIN ASSESSMENTS USING THE ACCOUNTING POLICY OF THE GROUP AND THE COMPANY AND ASSESSMENT CONTINGENCIES

In preparing of the Group's financial statement, the management has to make certain decisions, assessments and assumptions, which affect the disclosed amounts of income, expenses, assets and liabilities and contingencies on the reporting day. However, the contingency of these assumptions and assessments can affect the results, whereas this may require significant modification of the balance amounts of assets and liabilities in the future.

Solutions

For the purposes of the Group and the Company's accounting policy, the management has adopted the following decisions, except for those assessments, which have the most significant impact on the amounts recognized in the financial statement.

Liabilities under the contract of lease of activities – the Group and the Company as a lessor

The Group and the Company has included the lease of commercial assets into their investment portfolio. In accordance with the contract terms and conditions, the Group and the Company have determined that they shall have all the significant risks and benefits arising from the title to these assets, and therefore account for these contracts as the lease of activities.

Assessments and assumptions

The main future assumptions and other significant sources of assessment contingency, which cause significant risk and can require a significant modification of the balance values of assets or liabilities in another financial year, are discussed hereunder:

Impairment of non-financial assets

The Group and the Company evaluate whether there are any signs on the reporting day that the value of non-financial assets has reduced. The impairment of non-financial assets is assessed when there are signs that the balance amounts cannot be recovered. In calculating of the using value, the management must evaluate probable future monetary revenues from the assets or cash-generating segment and to choose a proper discount rate, calculating the current value of cash revenues.

Impairment of financial assets

On each financial reporting day, the Group and the Company assess financial assets so that to determine whether there are any signs that the value of these assets has reduced. The impairment of financial assets occurs when there are objective factors resulting from one or several events that occurred after the primary recognition of these financial assets, which have affected the assessed future cash flows of these financial assets. The impairment loss of financial assets accounted for at their amortized cost price is the difference between the book value of these financial assets and the current value of the assessed future cash flows, calculated using the efficient interest rate estimated at the primary recognition.

Assets of the deferred profit tax

Assets of the deferred profit tax are recognized with respect to all unused tax losses to the extent it is probable to receive the taxable profit, which shall be used to set-off the losses. Significant management decisions are necessary to define the amounts of the deferred profit tax assets, which may be recognized on the basis of probable future taxable profit period and amounts and the future tax planning strategies.

4. INFORMATION ABOUT THE SEGMENTS

For managerial purposes the activities of the Group and the Company are organized as a single main segment – the production and sale of dairy products (primary segment). The sales of the Group according to the geographical segments (secondary segment) are provided hereunder:

(All amounts are indicated in thousands of litas unless provided otherwise)

Sales

	January - June, 2011	January - June, 2010	April - June, 2011	April - June, 2010
Lithuania	136,220	113,964	69,559	59,033
Other Baltic and CIS states	68,471	49,891	38,118	26,683
Other European states	39,876	28,836	22,931	16,978
USA	80	93	41	48
Other	2,909	2,929	718	982
In total	**247,556**	**195,713**	**131,367**	**103,724**

The income from sales is classified according to the state, where the buyers are registered.

5. LOANS GRANTED

The Group's granted loans consisted of the following:

	30 June 2011	31 December 2010
Loans granted	7,112	5,437
Minus: temporary portion of the loans granted	(1,075)	(1,677)
	6,037	**3,760**

All the loans have been granted in litas. The repayment term is from 1 to 9 years.

6. STOCK

The Group's stock consisted of the following:

	30 June 2011	31 December 2010
Raw materials	13,210	12,384
Production and incomplete constructions	57,776	51,514
Goods for resale	1,060	886
	72,046	64,784
Minus: impairment up to the net realizable value	(7,698)	(2,703)
In total	**64,348**	**62,081**

(All amounts are indicated in thousands of litas unless provided otherwise)

7. RECEIVABLES FROM THE BUYERS

Receivables of the Group from the buyers consisted of the following:

	30 June 2011	31 December 2010
Receivables from the buyers	27,655	28,057
Receivables from the related parties	10,415	8,313
	38,070	36,370
Minus: impairment	(105)	(105)
In total	**37,965**	**36,265**

Changes in the impairment of doubtful receivables from the buyers are included in the profit (loss) statement as operating expenses.

Receivables from the buyers are free of interest and their term is usually from 30 to 90 days.

8. OTHER RECEIVABLES

Other receivables of the Group's consisted of the following:

	30 June 2011	31 December 2010
Advance profit tax	-	1,661
Current portion of long-term loans	1,075	1,677
Input returns tax	69	501
Input VAT	2,988	2,529
Other receivables	302	174
In total	**4,434**	**6,542**

9. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consisted of the following:

	30 June 2011	31 December 2010
Cash in the bank	6,604	8,603
Cash on hand	160	163
Short-term deposits in the bank	-	5,000
In total	**6,764**	**13,766**

(All amounts are indicated in thousands of litas unless provided otherwise)

10. EQUITY

On 30 June 2011, the share capital amounted to 48,375,000 ordinary registered shares with a nominal value of 1 litas. On 30 June 2011 and 31 December 2010, all the shares were fully paid.

Required reserve

The required reserve is mandatory under legal acts of the Republic of Lithuania. It is necessary to transfer not less than 5 percent of the net profit each year until the reserve reaches 10 percent of the share capital. The Company's required reserve was fully formed. The required reserve may not be distributed to the shareholders.

Other reserves

Other reserves are formed according to the decision of the annual meeting of shareholders to distribute the profit and the Company's articles of association. These reserves can only be used for the purposes determined by the general meeting of shareholders. Following the valid Law on Companies, the Company's reserves other than required reserves must be restored to the distributable profit and redistributed if they have not been used or they are not planned to be used.

11. LOANS

The Group's loans consisted of the following:

	Starting date of the contract	Repayment term	Currency	Balance 30 June 2011	Balance 31 December 2010
Bank DnB NORD, AB	May, 2004	June, 2012	EUR	5,179	6,750
Bank DnB NORD, AB	June, 2006	April, 2013	EUR	2,923	3,758
In total				**8,102**	**10,508**
Minus: short-term loans					
Minus: short-term portion of long-term loans				(835)	(1,670)
Long-term loans in total				**7,267**	**8,838**

(All amounts are indicated in thousands of litas unless provided otherwise)

12. LIABILITIES UNDER THE FINANCIAL LEASE CONTRACT

The Group's future minimum payments under the financial lease contracts consisted of the following:

	30 June 2011		31 December 2010	
Group	**Minimum payments under the financial lease contract**	**Current amount of the minimum payments under financial lease contract**	**Minimum payments of the financial lease contract**	**Current value of the minimum payments under the financial lease contract**
Over one year	2,422	2,328	4,861	4,673
Over two-five years	6,736	6,583	6,710	6,575
Minimum payments under the financial lease contract	**9,158**	**8,911**	**11,571**	**11,248**
Minus: future interest	(247)		(323)	
Current value of the minimum payments under the financial lease contract	**8,911**		**11,248**	

On 30 June 2011, all the Group's financial lease contracts were signed in euros.

13. PAYABLE AMOUNTS

Here are the terms of financial liabilities:

- Trade debts are free from interest and are usually repaid within a period of 30 days.
- Other payable amounts are free from interest and have approximately a repayment term of one month.
- Payable interest is usually paid on a monthly basis over the entire financial year.
- The terms of the amounts payable by the related parties are provided for in Clause 19.

(All amounts are indicated in thousands of litas unless provided otherwise)

14. OTHER PAYABLE AMOUNTS

Other payable amounts consisted of the following:

	Group	
	30 June 2011	**31 December 2010**
Accumulated expenses	7,615	6,708
Payable salaries	2,505	2,919
Payable social insurance	1,598	1,340
Payable taxes, except for the profit tax	90	157
Advance payments received	830	-
Other short-term liabilities	4,438	1,454
In total	17,076	12,578

15. SELLING EXPENSES

Selling expenses consisted of the following:

	Group	
	30 June 2011	**30 June 2010**
Raw materials	624	503
Liquid and spare parts	2,591	2,027
Depreciation and amortization	942	924
Salaries and social insurance	8,924	8,059
Marketing services	11,219	4,916
Other services	3,122	2,822
Others	146	94
In total	27,568	19,345

(All amounts are indicated in thousands of litas unless provided otherwise)

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consisted of the following:

	Group	
	30 June 2011	**30 June 2010**
Raw materials	322	168
Liquid and spare parts	180	154
Depreciation and amortization	553	445
Salaries and social insurance	6,065	5,027
Services	3,557	2,662
Activities taxes	233	348
Change in purity value of reserves	4,996	477
Impairment of the realizable value for doubtful debts	-	4,859
Others	43	51
In total	**15,949**	**14,191**

17. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses consisted of the following:

	Group	
	30 June 2011	**30 June 2010**
Other operating income:		
Profit from the sale of raw materials and other material values	1,967	1,290
Profit from the sale of tangible fixed assets	258	116
Transport services	102	54
Income from lease	220	545
Income from a canteen	411	270
Other	136	95
	3,094	**2,370**
Other operating expenses:		
Cost price of raw materials	1,875	1,297
Salaries and social insurance	-	-
Loss from the sale of tangible assets	-	3
Depreciation	379	579
Cost price of a canteen activity	440	287
Other services	102	1,098
	2,796	**3,264**
IN TOTAL other operating activity rezult	**298**	**(894)**

(All amounts are indicated in thousands of litas unless provided otherwise)

18. INCOME FROM AND EXPENSES OF FINANCIAL AND INVESTMENT OPERATIONS

Income from and expenses of financial and investment operations were as follows:

	Group	
	30 June 2011	**30 June 2010**
Income from the financial and investment operations:		
Bank interest income	112	286
Profit generated by the changes in the currency exchange rates	79	126
Profit from investments alienation	-	-
Interest from grants loans	139	73
Other financial income	9	112
	339	**597**
Expenses of the financial operations:		
Interest expenses	201	274
(Loss) generated by the changes in the currency exchange rates	106	104
Other financial expenses	11	1
	318	**379**
IN TOTAL	**21**	**218**

19. TRANSACTIONS OF THE RELATED PARTIES

The parties are considered related if one party has an opportunity to control another party or may have significant influence over another party in making of financial and operating decisions. The related parties of the Group and the Company are the following:

- Žemaitijos pieno investicija, AB (joint major shareholder);
- Baltijos mineralinių vandenų kompanija, UAB (joint major shareholder);
- Klaipėdos pienas, AB (joint major shareholder);
- Čia Market, UAB (joint major shareholder);
-Muižas piens, SIA (joint major shareholder).
- The amounts payable to the related parties are usually paid within a period of 30 days.

The Group's transactions with the related parties and balances of the year were as follows:

Interim consolidated unaudited financial statement for the period of 6 months, 2011
(All amounts are indicated in thousands of litas unless provided otherwise)

	Group	
	30 June 2011	**31 December 2010**
1) Sales		
To the Group		
Tarpučių pienas, ŽŪK	-	-
Šilutės Rambynas, ABF	-	-
	-	-
To the related parties		
Baltijos mineralinių vandenų kompanija, UAB	-	606
Klaipėdos pienas, AB	817	707
Žemaitijos pieno investicija, AB	-	-
Čia Market, UAB	15,306	25,506
Muižas piens, SIA	6,364	8,350
	22,487	35,169
Sales of stock and services		
To the Group		
Tarpučių pienas, ŽŪK	-	-
Šilutės Rambynas, ABF	-	-
	-	-
To the related parties		
Baltijos mineralinių vandenų kompanija, UAB	926	2,127
Klaipėdos pienas, AB	1,152	1,858
Žemaitijos pieno investicija, AB	96	356
Čia Market , UAB	416	498
Muižas piens, SIA	29	31
	2,619	4,870
Sales in total:	**25,106**	**40,038**
2) Purchases		
From the Group		
Tarpučių pienas, ŽŪK	-	-
Šilutės Rambynas, ABF	-	-
From the related parties		
	-	-
Klaipėdos pienas, AB	1,677	529
Baltijos mineralinių vandenų kompanija, UAB	188	274
Žemaitijos pieno investicija, AB	873	1,029
Čia Market, UAB	199	178
Muižas piens, SIA	-	1,526
	2,937	3,536
Purchases in total:	**2,937**	**3,536**

(All amounts are indicated in thousands of litas unless provided otherwise)

	Group	
	30 June 2011	31 December 2010
3) Balance of receivables at the end of the period		
The Group		
Tarpučių pienas, ŽŪK	-	-
Šilutės Rambynas, ABF	-	-
	-	-
Related parties		
Baltijos mineralinių vandenų kompanija, UAB	560	135
Čia Market, UAB	6,410	4,922
Klaipėdos pienas, AB	570	450
Žemaitijos pieno investicija, AB	1,057	1,440
Muižas piens, SIA	1,818	1,365
	10,415	8,313
	10,415	**8,313**
4) Balance of the payable amounts at the end of the period		
The Group		
Tarpučių pienas, ŽŪK	-	-
Šilutės Rambynas, ABF	-	-
	-	-
Related parties		
Žemaitijos pieno investicija, AB	1	-
Klaipėdos pienas, AB	201	-
Čia Market, UAB	-	-
Baltijos mineralinių vandenų kompanija, UAB	-	-
	202	-
	202	-

The balance unpaid at the end of the period is not covered by insurance and it will bear no interest, whereas the settlement shall be in cash. The Group has not accounted for any impairment of the realizable value for doubtful debts related with the amounts, which belong to the related parties. The assessment of these doubtful debts is reviewed each financial year investigating the financial situation of the related party and the market, wherein the party operates.

The Group has concluded a lot of transactions with the related parties (the companies of the group of Žemaitijos pieno investicija, AB), and the Group's profit and sales have been significantly affected by the transactions with the group of Žemaitijos pieno investicija, AB. They include long-term lease of assets, sales of raw materials, sale of distribution services to Baltijos mineralinių vandenų kompanija, UAB, and Klaipėdos pienas, AB, and the sale of production to Čia Market, UAB.

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