

**AB Vilkyškių Pieninė**

Consolidated financial  
statements for the year ended  
31 December 2011

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## **Company details**

### **AB Vilkyškių Pieninė**

Telephone: +370 441 55330  
Telefax: +370 441 55242  
Company code: 277160980  
Address: LT-99369 Vilkyškiai, Vilkyškių sen., Pagėgių r. sav., Lithuania

### **Board**

Gintaras Bertašius (Chairman)  
Sigitas Trijonis  
Rimantas Jancevičius  
Vilija Milaševičiūtė  
Andrej Cyba  
Linas Strėlis

### **Management**

Gintaras Bertašius, General Director  
Vaidotas Juškys, Chief Operation Officer  
Sigitas Trijonis, Technical Director  
Rimantas Jancevičius, Stock Director  
Arvydas Zaranka, Production Director  
Vilija Milaševičiūtė, Finance Director

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas  
AB Bankas SNORAS  
Swedbank, AB  
DnB Nord Bankas  
Nordea Bank Finland Plc

## **Management's statement on consolidated financial statements**

The Management has today discussed and authorized for issue the consolidated annual financial statements (hereinafter „the consolidated financial statements“).

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

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

Vilkyškiai, 2 April 2012

Management:

-----  
Gintaras Bertašius  
General Director





„KPMG Baltics“, UAB  
Naujoji Uosto st. 11  
LT-92121 Klaipėda  
Lithuania

Phone: +370 46 48 00 12  
Fax: +370 46 48 00 13  
E-mail: klaipeda@kpmg.lt  
Website: www.kpmg.lt

## Independent auditors' report to the shareholders of AB Vilkyškių Pieninė

### Report on the financial statements

We have audited the accompanying consolidated financial statements of AB Vilkyškių Pieninė (“the Company”), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5-56.

### *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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



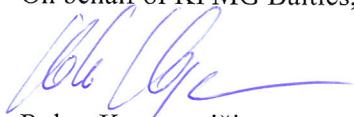
*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AB Vilkyškių Pieninė as at 31 December 2011, 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.


**Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the annual report of AB Vilkyškių Pieninė for the year ended 31 December 2011, set out on pages 57 – 78 of the consolidated financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the consolidated financial statements of AB Vilkyškių Pieninė for the year ended 31 December 2011.

On behalf of KPMG Baltics, UAB



Rokas Kasperavičius  
Partner, pp  
Certified Auditor



Andrej Soruženkov  
Certified Auditor

Klaipėda, the Republic of Lithuania

2 April 2012

**Consolidated statement of financial position**

As at 31 December

Thousand Litas	Note	2011	2010
<b>Assets</b>			
Property, plant and equipment	10	72,344	65,674
Intangible assets	11	24,010	24,273
Long-term receivables	12	1,559	1,487
<b>Non-current assets</b>		<b>97,913</b>	<b>91,434</b>
Inventories	13	23,259	16,950
Trade and other receivables	14	19,383	12,986
Prepayments	15	1,603	1,792
Cash and cash equivalents	16	337	358
<b>Current assets</b>		<b>44,582</b>	<b>32,086</b>
<b>Total assets</b>		<b>142,495</b>	<b>123,520</b>
<b>Equity</b>			
Share capital		11,943	11,943
Share premium		11,396	11,396
Reserves		12,494	8,252
Retained earnings		20,195	18,067
<b>Total equity attributable to the shareholders of the Group</b>	17	<b>56,028</b>	<b>49,658</b>
<b>Non-controlling interest</b>		<b>104</b>	<b>155</b>
<b>Total equity</b>	17	<b>56,132</b>	<b>49,813</b>
<b>Liabilities</b>			
Interest-bearing loans and lease liabilities	18	24,117	22,279
Derivative financial instruments	22	1,045	-
Government grants	19	7,842	8,479
Deferred tax liabilities	20	2,633	2,739
<b>Non-current liabilities</b>		<b>35,637</b>	<b>33,497</b>
Interest-bearing loans and lease liabilities	18	21,144	18,421
Current tax liabilities			1
Derivative financial instruments	22	352	31
Trade and other payables	21	29,230	21,757
<b>Current liabilities</b>		<b>50,726</b>	<b>40,210</b>
<b>Total liabilities</b>		<b>86,363</b>	<b>73,707</b>
<b>Total equity and liabilities</b>		<b>142,495</b>	<b>123,520</b>

The notes on pages 12-56 are an integral part of these consolidated financial statements.

## Consolidated income statement

For the year ended 31 December

Thousand Litas	Note	2011	2010
Revenue	1	290,133	244,273
Cost of sales	2	-260,955	-215,120
<b>Gross profit</b>		29,178	29,153
Other operating income	3	825	3,510
Distribution expenses	5	-9,782	-7,495
Administrative expenses	6	-7,587	-7,584
Other operating costs	4	-268	-3,848
<b>Result from operating activities</b>		12,366	13,736
Finance income		133	514
Finance costs		-1,895	-1,904
<b>Net finance expense</b>	7	-1,762	-1,390
<b>Profit before income tax</b>		10,604	12,346
Income tax expense	8	37	-504
<b>Profit for the year</b>		10,641	11,842
Attributable to:			
Shareholders of the Group		10,565	11,775
Non-controlling interest		76	67
<b>Profit for the year</b>		10,641	11,842
Basic earnings per share (Litas)	9	0.88	0.99
Diluted earnings per share (Litas)	9	0.88	0.99

The notes on pages 12-56 are an integral part of these consolidated financial statements.



## **Consolidated statement of comprehensive income**

For the year ended 31 December

Thousand Litas	Note	2011	2010
<b>Profit for the year</b>		<b>10,641</b>	<b>11,842</b>
<b>Other comprehensive income</b>			
Effect of income tax		68	66
Change in fair value of hedging instruments		-1,397	-
<b>Other comprehensive income for the year, net of income tax</b>		<b>-1,329</b>	<b>66</b>
<b>Total comprehensive income</b>		<b>9,312</b>	<b>11,908</b>
Attributable to:			
Shareholders of the Group		9,236	11,841
Non-controlling interest		76	67
<b>Total comprehensive income</b>		<b>9,312</b>	<b>11,908</b>

The notes on pages 12-56 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

Thousand Lit	Equity attributable to shareholders of the Group								
	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010		11,943	11,396	7,689	935	7,048	39,011	88	39,099
<b>Comprehensive income for the period</b>									
Net profit		-	-	-	-	11,775	11,775	67	11,842
<b>Other comprehensive income</b>									
Allocated from reserves		-	-	-438	-	438	-	-	-
Increase of revaluation reserve due to income tax effect		-	-	66	-	-	66	-	66
<b>Total other comprehensive income</b>		-	-	-372	-	438	66	-	66
<b>Total comprehensive income for the period</b>		-	-	-372	-	12,213	11,841	67	11,908
<b>Contributions by and distributions to owners:</b>									
Dividends		-	-	-	-	-1,194	-1,194	-	-1,194
Total contributions by and distributions to owners		-	-	-	-	-1,194	-1,194	-	-1,194
<b>Changes in the Group without losing control</b>									
Other changes in the Group		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance at 31 December 2010	17	11,943	11,396	7,317	935	18,067	49,658	155	49,813

The notes on pages 12-56 are an integral part of these consolidated financial statements.

*(continued on the next page)*

## Consolidated statement of changes in equity (continued)

Thousand Lit	Equity attributable to shareholders of the Group										
	Note	Share capital	Share premium	Revaluation reserve	Hedging reserve	Reserve for acquiring own shares	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		11,943	11,396	7,317	-	-	935	18,067	49,658	155	49,813
<b>Comprehensive income for the period</b>											
Net profit		-	-	-	-	-	-	10,565	10,565	76	10,641
<b>Other comprehensive income</b>											
Allocated from reserves		-	-	-456	-	-	-	456	-	-	-
Increase of revaluation reserve due to income tax effect		-	-	68	-	-	-	-	68	-	68
Formation of hedging reserve		-	-	-	-1,397	-	-	-	-1,397	-	-1,397
<b>Total other comprehensive income</b>		-	-	-388	-1,397	-	-	456	-1,329	-	-1,329
<b>Total comprehensive income for the period</b>		-	-	-388	-1,397	-	-	11,021	9,236	76	9,312
<b>Contributions by and distributions to owners:</b>											
Allocated to legal reserve		-	-	-	-	-	259	-259	-	-	-
Allocated to reserve for acquiring own shares		-	-	-	-	5,768	-	-5,768	-	-	-
Dividends		-	-	-	-	-	-	-2,866	-2,866	-98	-2,964
Total contributions by and distributions to owners		-	-	-	-	5,768	259	-8,893	-2,866	98	-2,964
<b>Changes in the Group without losing control</b>											
Other changes in the Group											
Decrease of non-controlling interest		-	-	-	-	-	-	-	-	-29	-29
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-	-29	-29
Balance at 31 December 2011	17	11,943	11,396	6,929	-1,397	5,768	1,194	20,195	56,028	104	56,132

The notes on pages 12-56 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended 31 December

Thousand Litas	Note	2011	2010
<b>Cash flows from operating activities</b>			
Profit for the year		10,641	11,842
Adjustments:			
Depreciation of property, plant and equipment			
	10	6,722	6,348
Amortization of intangible assets	11	265	297
Amortization and write down of grants	19	-787	-717
Loss (profit) on disposal of property, plant and equipment		-87	57
Profit from disposal of investments		-	-371
Income tax expense		-37	504
Interest expenses, net		1,762	1,390
		<b>18,479</b>	<b>19,350</b>
Change in inventories		-6,309	1,562
Change in long-term receivables		-72	-66
Change in trade and other receivables and prepayments		-7,969	337
Change in trade and other payables		10,129	493
		<b>14,258</b>	<b>21,676</b>
Income tax paid		-1	-
Interest paid		-1,562	-1,687
<b>Net cash from operating activities</b>		<b>12,695</b>	<b>19,989</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	10	-13,331	-5,432
Acquisition of intangible assets	11	-	-87
Proceeds from sale of property, plant and equipment		534	558
Acquisition of the subsidiary's shares		-14	-
Loans granted		-869	-
Interest received		16	-
<b>Net cash flows used in investing activities</b>		<b>-13,655</b>	<b>-4,961</b>

## **Consolidated statement of cash flows (continued)**

For the year ended 31 December

Thousand Litas	Note	2011	2010
<b>Cash flows from financing activities</b>			
Loans received		19,163	2,337
Repayment of borrowings		-15,491	-17,201
Dividends paid		-2,883	-1,194
Capital grants received	19	150	993
<b>Net cash used in financing activities</b>		<b>939</b>	<b>-15,065</b>
<b>Increase (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		358	395
<b>Cash and cash equivalents at 31 December</b>	16	<b>337</b>	<b>358</b>

The notes on pages 12-56 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### Background information

The Group (hereinafter – the Group) consists of the following companies:

- Vilkyškių Pieninė, the parent Company (hereinafter – the Parent Company or the Company)
- AB Modest, the subsidiary (hereinafter – the subsidiary AB Modest)
- AB Kelmės Pieninė, the subsidiary (hereinafter – the subsidiary AB Kelmės Pieninė).

AB Vilkyškių Pieninė was established in 1993. The Group 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 2011 the Company's shares were owned by the following shareholders:

Shareholder	Shares	Nominal value in Litas	Total value in Litas
Gintaras Bertašius	6,067,206	1	6,067,206
Linas Strėlis	1,015,000	1	1,015,000
Skandinaviska Enskilda Banken AB	985,427	1	985,427
Other	3,875,367	1	3,875,367
<b>Total</b>	<b>11,943,000</b>	<b>1</b>	<b>11,943,000</b>

Gintaras Bertašius and persons related to him are ultimate controlling party of the company.

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

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

The Parent Company has a subsidiary AB Modest, which is engaged in milk processing and production of dairy products. The Company holds 99.7% voting rights of the subsidiary. AB Modest specialises in production of cheese mozzarella, blue cheese and other cheese products.

The Parent Company has a 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 specializes in production of fresh dairy products.

As at 31 December 2011 the Group had 845 employees (2010 - 755).

## **Notes to consolidated financial statements**

### **Basis for preparation**

#### **Statement of compliance**

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

The Parent Company also prepares separate financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and prescribed by Lithuanian legislation.

The management of the Parent Company is authorized to issue the consolidated financial statements of the Group after approval by the general shareholders meeting, which must be convened by 30 April 2012 as prescribed by the Companies Law of the Republic of Lithuania.

#### **Basis of measurement**

Financial statements are prepared on the historical cost basis except for:

- derivative financial instruments which are measured at fair value;
- buildings that are a part of property, plant and equipment and are measured at fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

#### **Functional and presentation currency**

The 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 Parent Company and its subsidiaries.

#### **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 recognized 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### **Basis of consolidation**

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company 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 unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies**

The accounting policies of the Group, set out below, have been applied consistently to all periods presented in these financial statements, except for those which changed due to the changes in amended standards and the new IFRSs as explained below in the section “Effect on financial statements of application of new standards and amendments and new interpretation to standards”.

#### **Property, plant and equipment**

Items of property, plant and equipment, including assets under finance lease terms, but excluding buildings, are stated at cost less accumulated depreciation and impairment losses. The cost includes costs incurred when acquiring the 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 as separate items of property, plant and equipment.

The Parent Company and the subsidiaries include the cost of a replacing part in the carrying amount of an item of property, plant and equipment, 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 recognized in the income statement as an expense as incurred.

Buildings are recognized at revalued amounts, being the estimated 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 proportion to depreciation of revaluated buildings.

In the event of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the latter is immediately reduced to the fair value and the impairment is deducted from the previous revaluation increases recognised in the revaluation reserve, to the extent it does not exceed the amount of such increases. Any excess of impairment is recognized as an expense in the profit and loss.

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 through other comprehensive income into the revaluation reserve of property, plant and equipment under the equity.. Depreciation is calculated on the amount which is equal to the acquisition cost/revalued amount net of residual value of the asset.

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Parent Company and its subsidiaries and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.



## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Property, plant and equipment (continued)**

Depreciation is recognized 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 Parent Company and its subsidiaries assume substantially all the risks and rewards of the ownership are classified as finance leases. The leased property acquired by way of finance lease is capitalized 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 with a finite useful life that are acquired by the Parent Company and its subsidiaries 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 is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

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

#### **Non-controlling interest**

Non-controlling interest is the equity in a subsidiary not attributable directly or indirectly to the parent. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

## Notes to consolidated financial statements

### Summary of significant accounting policies (continued)

#### 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 capacities.

#### Financial assets and liabilities

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 recognized on the trade date, except loans, receivables and deposits which are recognized at the date they are originated. When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

##### *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 recognizing 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 gains or losses on revaluation are charged directly to the income statement. Interest income and expense and dividends on such investments are recognized 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 Parent Company or subsidiaries has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using an effective interest method, less any impairment losses. The effective interest method is based on estimated cash flows considering all contractual terms of the financial instrument at the date the instrument is recognized. Gains and losses are recognized in the income statement when the investments are derecognized or impaired.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Financial assets and liabilities (continued)**

##### *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 amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in income when the loans and receivables are derecognized 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 recognized through other comprehensive income as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the income statement.

##### *Fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting 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 recognized initially at fair value, plus attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized 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 recognized as part of the asset acquisition costs and are accordingly added to the cost of property, plant and equipment.

##### *Trade and other payables*

Trade and other payables are recognized initially at fair value plus any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method. The carrying value of trade and other payables approximate their fair values due to their short maturity.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Financial assets and liabilities (continued)**

##### **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 though profit and loss.

Derivatives are recognized initially at fair value: attributable transaction costs are recognized 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.

##### *Hedging from cash flow risk*

Changes in fair value of the derivatives that are designated as hedging against cash flow risks are recognised directly in equity to the extent this hedging is effective. When the hedging is not effective, the fair value changes are recognised in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

##### *Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognized 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 recognized 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 derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Parent Company or subsidiaries 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.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Derecognition of financial assets and financial liabilities (tęsinys)**

Where the Parent Company or subsidiaries 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 recognized to the extent of the Parent Company or subsidiaries continuing involvement in the asset.

#### *Financial liabilities*

A financial liability is derecognized 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.

#### **Impairment**

##### *Financial assets*

Financial assets not carried at fair value through profit or losses are reviewed for impairment at each reporting 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 amortized cost, whenever it is probable that the Parent Company and subsidiaries will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement. The reversal of impairment losses previously recognized 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 recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

In relation to trade and other receivables impairment loss is recognized when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Parent Company and subsidiaries 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 derecognized when they are assessed as uncollectible.

##### *Calculation of recoverable amount*

The recoverable amount of the Group's receivables carried at amortized 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.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Impairment (continued)**

##### *Calculation of recoverable amount (continued)*

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 amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

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 amortization, if no impairment loss has been recognized.

##### *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 recognized in the income statement. Impairment losses recognized 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 recognized in prior years is recorded when there is an indication that the impairment losses recognized 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. An impairment loss in respect of goodwill is not reversed.

#### **Provisions**

A provision is recognized in the statement of financial position when the Parent Company or subsidiaries 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.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Employee benefits**

Short-term employee benefits are recognized 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.

#### **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*

Finance leases, which transfer to the Parent Company or subsidiaries substantially all the risks and benefits incidental to ownership of the leased item, are capitalized 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.

Capitalized 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 Parent Company or subsidiaries will obtain ownership by the end of the lease term.

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

#### **Dividends**

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

#### **Government grants**

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

Grants that compensate the Parent Company or subsidiaries for the cost of an asset are amortized over the same period as the asset for which the grant has been received. Amortization 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.

#### **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 recognized 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 consolidated financial statements**

### **Summary of significant accounting policies (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 as well as other income and costs not related to the primary activity of the Parent Company or subsidiaries.

#### **Financial income and expenses**

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

Interest income is recognized in the income statement using the effective interest method. The interest expense component of finance lease payments is recognized 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 recognized in the income statement except to the extent that it relates to items recognized through other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting 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 is 15%, in 2010 - 15%. Tax losses can be carried forward for an 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.

Deferred tax is provided 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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



## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Earnings per share**

The Parent Company 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 Parent Company by the weighted number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by adjusting the net profit attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding during the year by all potential ordinary shares. During the financial year the Parent Company 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 General Director of the Parent Company to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

The accounting policies applied by the Parent company and subsidiaries coincide with the accounting policies of the previous year, except that the Parent company and subsidiaries has implemented those new/revised standards and their interpretations, which are mandatory for financial periods starting on or before 1 January 2011 and which are relevant to the activity of the Parent Company's or its subsidiaries:

- *Revised IAS 24 "Related Party Disclosure"* is effective for annual periods beginning on or after 1 January 2011. The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Revised IAS 24 does not result in new relations requiring disclosure in the financial statements.

- *Amendment to IFRIC 14 / IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* is effective for annual periods beginning on or after 1 January 2011. The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 are not relevant to the Parent Company's financial statements as the Parent Company and subsidiaries do not have any defined benefit plans with minimum funding requirements.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Approved, but not yet effective standards**

A number of new and revised International Financial Reporting Standards and their interpretations have been issued, which will become mandatory for the Parent Company's financial statements in accounting periods beginning after 1 January 2012. The Parent Company has decided not to apply the amendments and new standards and interpretations early. Below is the estimate of the Parent Company's management regarding the potential effect of the new and revised standards and interpretations upon their first-time application.

*Amendments to IFRS 7 Disclosures - Transfers of Financial Assets*, effective for annual periods beginning on or after 1 July 2011 and to be applied prospectively. The Amendments require disclosure of information that enables users of financial statements: to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendment to IFRS 7 is not relevant to the Group's financial statements as the Group does not have any transferred financial assets.

#### **Contingencies**

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

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

#### **Subsequent events**

Subsequent events that provide additional information about the Group'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.

#### **Use of judgements and estimates**

The preparation of 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 Parent 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 consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Use of judgements and estimates (continued)**

##### ***Fair value of derivatives***

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

##### ***Determination of an effective hedge***

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%.

##### ***Determining whether an arrangement contains a lease***

At inception of an arrangement the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- 1) The fulfilment of the arrangement is dependent on the use of the specific asset or assets and;
- 2) The arrangement contains a right to use the asset (s).

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

##### ***Impairment losses on goodwill and property, plant and equipment***

The carrying amounts of the Group's goodwill and 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable value.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Use of judgements and estimates (continued)**

##### *Valuation of buildings*

Information about assumptions and estimation uncertainties related to valuation of buildings is included in Note 10 “Property, plant and equipment”.

##### *Impairment losses on receivables*

The Parent Company and subsidiaries reviews receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Parent Company and subsidiaries 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 Parent Company and subsidiaries 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 utilization and physical condition of the assets concerned.

#### **Financial risk management**

The Parent Company and subsidiaries has exposure to the following risks from its use of financial instruments:

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

This note 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 included throughout these financial statements.

##### *Risk management framework*

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 analyze 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.

## **Notes to consolidated financial statements**

### **Summary of significant accounting policies (continued)**

#### **Financial risk management (continued)**

##### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group manages foreign exchange risk by minimizing the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Note 26 Financial instruments and risk management.

The Group's income and operating cash flows are in general independent of changes in market interest rates. Group use derivative instruments to hedge the interest rate risk (refer to Note 22). The Group does not have significant interest-bearing assets.

##### **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

The note "Financial instruments and risk management" presents information about the Group's exposure to each of the credit, liquidity and capital management 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 consolidated financial statements

### 1 Segment reporting

The Group has several reportable segments, as prescribed below.

Reportable segments are different product groups, which are managed separately because they require different technology and marketing strategies. For each of the product groups, the General Director reviews internal management reports on at least a monthly basis.

The following summary describes the products in each of the Group's reportable segments:

- *Cheese and cheese products.* Includes cheese and cheese products produced by the Company and its subsidiaries;
- *Fresh dairy products.* Includes other products (milk, kefir, yoghurt, curd) produced by the Company;
- *Other dairy products.* Includes other dairy products.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit, as included in the internal management reports that are reviewed by the General Director. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results.

Segments results for the year ended 31 December 2011 are as follows:

Thousand Lit	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	136,778	67,605	85,750	290,133
Cost of sales	-132,079	-55,919	-72,957	-260,955
Gross profit	4,699	11,686	12,793	29,178

Segments results for the year ended 31 December 2010 were as follows:

Thousand Lit	Cheese and cheese products	Fresh dairy products	Other products	Total
Sales	120,687	50,562	73,024	244,273
Cost of sales	-112,783	-40,133	-62,204	-215,120
Gross profit	7,904	10,429	10,820	29,153

Information of assets, liabilities, interest income and expenses, amortisation and depreciation, result before tax, tax expenses and other non monetary captions attributable for each of the separate segments is not provided to the General Director. The opinion of the management is that it is not reasonable to allocate these captions to separate reportable segments.

## Notes to consolidated financial statements

### 1 Segment reporting (continued)

Besides that, the Group has three reportable segments, relating to operating entities: 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 General Director 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 Group AB Vilkyškių Pieninė is presented in the separate financial statements.

When presenting information as to geographical location, segment income is recognised according to the clients' geographical location. Segment assets are allocated according to their geographical location.

Segment information for 2011:

Thousand Lit	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	288,927	74,548	108,187	-181,530	290,133
Interest income	73	156	-	-156	73
Interest expenses	-1,241	-421	-51	156	-1,557
Depreciation and amortization	4,560	1,660	765	-	6,985
Result before taxation	13,509	9,817	162	-12,884	10,604
Income tax expense	37	-	-	-	37
Profit for the year	13,546	9,817	162	-12,884	10,641
Other material non-cash items					
Segment assets	122,994	33,458	19,042	-32,999	142,495
Acquisition of property, plant and equipment	12,253	456	1,157	-	13,866
Segment liabilities	73,029	19,753	13,615	-20,034	86,363

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

Segment information for 2011 per geographical zones:

Thousand Lit	Revenue	Assets
Lithuania	105,526	135,222
European Union, except Lithuania	97,594	2,299
Russia	78,594	3,348
Other	8,419	1,626
	<u>290,133</u>	<u>142,495</u>

## Notes to consolidated financial statements

### 1 Segment reporting (continued)

Segment information for 2010:

Thousand Lit	AB Vilkyškių Pieninė	AB Kelmės Pieninė	AB Modest	Adjustment	Total
Revenue	249,969	73,613	41,839	-121,148	244,273
Interest income	144	2,155	-	-1,785	514
Interest expenses	-1,479	-479	-110	164	-1,904
Depreciation and amortization	4,535	1,479	631	-	6,645
Result before taxation	3,568	7,370	3,010	-1,602	12,346
Income tax expense	-504	-	-	-	-504
Profit for the year	3,064	7,370	3,010	-1,602	11,842
Other material non-cash items	-	-	-	-	-
Segment assets	102,906	35,776	11,296	-26,458	123,520
Acquisition of property, plant and equipment	-3,885	-552	-1,082	-	-5,519
Segment liabilities	62,292	18,891	6,032	-13,508	73,707

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

Segment information for 2011 per geographical zones:

Thousand Lit	Revenue	Assets
Lithuania	91,626	120,210
European Union	84,431	2,802
Russia	62,661	344
Other countries	5,555	164
	<u>244,273</u>	<u>123,520</u>

#### Information about major clients

Revenue from one major client earned by the Group in 2011 amounted to 69,520 tLTL which constitutes 24% of total earned income (2010- 34,748 tLTL, 14%).



**Notes to consolidated financial statements**

	2011	2010
Thousand Lit		
<b>2 Cost of sales</b>		
Raw materials	-210,448	-176,576
Staff costs	-16,832	-14,806
Depreciation and grants amortisation	-5,391	-3,857
Gas, electricity	-8,315	-6,754
Other costs	-19,969	-13,127
	<u>-260,955</u>	<u>-215,120</u>
<b>3 Other operating income</b>		
Income from services rendered	-	2,168
Income from sales of materials	79	1,139
Other	746	203
	<u>825</u>	<u>3,510</u>
<b>4 Other operating costs</b>		
Cost of services rendered	-	-1,498
Cost of sold materials	-48	-1,117
Depreciation on rented assets	-	-1,052
Other	-220	-181
	<u>-268</u>	<u>-3,848</u>
<b>5 Distribution expenses</b>		
Logistics and transportation	-4,302	-3,469
Marketing and advertising	-2,603	-2,228
Staff costs	-1,446	-1,089
Depreciation	-165	-114
Other	-1,266	-595
	<u>-9,782</u>	<u>-7,495</u>

In the year 2011 the Group has changed classification of other activity income and expenses. If the same principle would be followed in 2010 then income from sales of materials and cost of sold materials would decreased by LTL 1,090 thousand. Income from services rendered would decrease by LTL 408 thousand, depreciation on rented assets (LTL 1,052 thousand) and other costs related to personnel expenses (LTL 366 thousand) would be reclassified to cost of sales, while other costs in cost of sales would decrease by LTL 408 thousand.

**Notes to consolidated financial statements**

Thousand Lit	2011	2010
<b>6 Administrative expenses</b>		
Staff costs	-3,394	-3,180
Depreciation and amortization	-644	-905
Consultations	-434	-382
Security	-323	-331
Fuel	-314	-168
Veterinary services	-266	-178
Bank charges	-202	-185
Impairment of trade and other receivables	-200	-296
Penalties	-161	-133
Taxes except for income tax	-102	-605
Payments to Board members	-100	-67
Security commission services	-84	-101
Repair	-83	-85
Insurance	-61	-83
Membership fee	-56	-51
Impairment of inventories	-16	-231
Other	-1,147	-603
	<u>-7,587</u>	<u>-7,584</u>
<b>7 Net financing costs</b>		
<i>Finance income</i>		
Gain from disposal of UAB Kelmės pieno centras	-	371
Interest	73	86
Penalties and fines	55	57
Other	5	-
Total finance income	<u>133</u>	<u>514</u>
<i>Finance costs</i>		
Interest	-1,557	-1,693
Loss from foreign exchange	-188	-168
Other	-150	-43
Total finance costs	<u>-1,895</u>	<u>-1,904</u>
	<u>-1,762</u>	<u>-1,390</u>

## Notes to consolidated financial statements

<b>8</b>	<b>Income tax expense</b>		
	Thousand Litas	<b>2011</b>	<b>2010</b>
	<i>Recognized in the income statement</i>		
	<b>Current income tax expense</b>		
	Current period	-	-1
	<b>Deferred tax</b>		
	Change in deferred tax	37	-503
		<u>37</u>	<u>-504</u>

The deferred tax liability in respect of revalued buildings, recognised in equity, amounts to 1,222 tLTL as at 31 December 2011 (2010 : 1,291 tLTL).

### *Reconciliation of effective tax rate*

Thousand Litas		<b>2011</b>		<b>2010</b>
Profit for the year		10,641		11,842
Total income tax expense		-37		504
Profit before income tax		10,604		12,346
Income tax applying the effective tax rate	15.00%	1,591	15.00%	1,852
Non-taxable result of subsidiary AB Kelmės Pieninė	-13.89%	-1,473	-6.98%	-862
Permanent differences		84		-118
Recognition of unrecognised tax losses		-		-368
Recognition of temporary differences from previous periods		-239	-	-
Income tax expense	-0.35%	<u>-37</u>	4.09%	<u>504</u>

<b>9</b>	<b>Earnings per share</b>		
	Thousand Litas	<b>2011</b>	<b>2010</b>
	Number of issued shares calculated based on weighted average method, in thousand units.	11,943	11,943
	Net profit, attributable to ordinary shareholders of the Parent Company, in thousand Litas	10,565	11,775
	Basic earnings per share, in Litas	<u>0.88</u>	<u>0.99</u>

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

**Notes to consolidated financial statements****10 Property, plant and equipment**

Thousand Lit	Land and buildings	Machinery and equipment	Other assets	Constructio in progress	Total
<b>Cost/revalued amount</b>					
Balance as at 1 January 2010	28,371	50,449	14,198	3,207	96,225
Acquisitions	73	1,691	591	4,063	6,418
Disposals	-199	-1,697	-337	-20	-2,253
Reclassification	3,202	3,128	34	-6,364	-
Balance as at 31 December 2010	<u>31,447</u>	<u>53,571</u>	<u>14,486</u>	<u>886</u>	<u>100,390</u>
Balance as at 1 January 2011	31,447	53,571	14,486	886	100,390
Acquisitions	28	8,677	558	4,601	13,864
Disposals	-18	-1,659	-768	-	-2,445
Reclassification	-371	2,432	-607	-1,454	-
Balance as at 31 December 2011	<u>31,086</u>	<u>63,021</u>	<u>13,669</u>	<u>4,003</u>	<u>111,809</u>
<b>Depreciation and impairment</b>					
Balance as at 1 January 2010	4,904	17,629	7,444	-	29,977
Depreciation for the year	1,490	4,100	758	-	6,348
Disposals	-197	-1,232	-180	-	-1,609
Reclassification	-	-	-	-	-
Balance as at 31 December 2010	<u>6,197</u>	<u>20,497</u>	<u>8,022</u>	<u>-</u>	<u>34,716</u>
Balance as at 1 January 2011	6,197	20,497	8,022	-	34,716
Depreciation for the year	1,277	4,387	1,058	-	6,722
Disposals	-15	-1,290	-668	-	-1,973
Reclassification	-376	605	-229	-	-
Balance as at 31 December 2011	<u>7,083</u>	<u>24,199</u>	<u>8,183</u>	<u>-</u>	<u>39,465</u>
<b>Carrying amounts</b>					
1 January 2010	<u>23,467</u>	<u>32,820</u>	<u>6,754</u>	<u>3,207</u>	<u>66,248</u>
31 December 2010	<u>25,250</u>	<u>33,074</u>	<u>6,464</u>	<u>886</u>	<u>65,674</u>
31 December 2011	<u>24,003</u>	<u>38,822</u>	<u>5,486</u>	<u>4,033</u>	<u>72,344</u>

Prepayments for property, plant and equipment are classified as acquisitions of property, plant and equipment.

**Pledges**

To secure the bank loans, the Group has pledged its property, plant and equipment with a book value of 47,596 tLTL as at 31 December 2011 (2010 : 51,711 tLTL (note 18)).

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 17,816 tLTL as at 31 December 2011 (2010 : 14,181 tLTL).

## Notes to consolidated financial statements

### 10 Property, plant and equipment (continued)

#### *Leased property, plant and equipment*

The Group has acquired several transport vehicles, plant and equipment under finance lease arrangements. The carrying amount of the leased assets amounted to 3,678 tLTL as at 31 December 2011 (2010 : 3,598 tLTL).

#### *Depreciation*

Depreciation is provided for in the following items:

Thousand Litas	2011	2010
Cost of finished goods	6,185	4,574
Other operating costs	-	1,052
Distribution and administrative expenses	809	1,019
	<hr/>	<hr/>
	6,722	6,348
	<hr/>	<hr/>

#### *Valuation of buildings*

Buildings are recognized at revalued amounts, being the estimated fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Last revaluation was done in December 2010 by independent appraisals.

During 2011 there were no significant changes in the real estate market and the management is of the opinion that there was no need to perform an evaluation of the buildings at the end of 2011 and to make any adjustments to the value of the buildings presented in the financial statements for 2011.

If the buildings were carried at cost model, the carrying amount recognized as at 31 December 2011 would be 15,856 tLTL (2010 : 16,646 tLTL).

The revaluation reserve has been decreased by an amount of deferred tax and its net value amounts to 6,029 tLTL as at 31 December 2011 (2010 : 7,317 tLTL).

## Notes to consolidated financial statements

### 11 Intangible assets

Thousand Lit	Goodwill	Software	Total
<b>Cost</b>			
Balance as at 1 January 2010	23,875	1,537	25,412
Acquisitions	-	87	87
Disposals	-	-	-
Balance as at 31 December 2010	23,875	1,624	25,499
Balance as at 1 January 2011	23,875	1,624	25,499
Acquisitions	-	2	2
Disposals	-	-	-
Balance as at 31 December 2011	23,875	1,626	25,501
<b>Amortization and impairment</b>			
Balance as at 1 January 2010	-	929	929
Amortization for the year	-	297	297
Disposals	-	-	-
Balance as at 31 December 2010	-	1,226	1,226
Balance as at 1 January 2011	-	1,226	1,226
Amortization for the year	-	265	265
Disposals	-	-	-
Balance as at 31 December 2011	-	1,491	1,491
<b>Carrying amounts</b>			
1 January 2010	23,875	608	24,483
31 December 2010	23,875	398	24,273
31 December 2011	23,875	135	24,010

Amortization charge for the year is included in administrative expenses.

#### *Impairment of cash generating units to which goodwill is assigned*

Goodwill is assigned to the following cash generating units of the Group:

Thousand Lit	2011	2010
AB Kelmės Pieninė	22,842	22,842
AB Modest	1,033	1,033
	<u>23,875</u>	<u>23,875</u>

## Notes to consolidated financial statements

### 11 Intangible assets (continued)

#### *Impairment of cash generating units to which goodwill is assigned (continued)*

An impairment test of these cash generating units was performed when calculating their recoverable value. For assessment of the usage value, the estimated future cash flows were discounted to their present value applying the pre-tax rate of the average weighted capital price in the industry which equalled to 8.87% (2010 : 10.04%). If not stated otherwise, the same estimation of the usage value was done for 2010. The main assumptions used for the calculation are as follows:

- The future cash flows for 2011 and 2012 have been calculated based on historical experience and the business plan for 4 years. The cash flows expected during the remaining useful life of the machinery and equipment (AB Kelmės pieninė 6 years, AB Modest – 9 years) have been calculated by extrapolating the cash flow of the 4th year with a zero growth rate.
- The Group's management is planning to strengthen marketing and increase export sales;
- The Group's management expects that the prices for raw milk will not differ significantly from the prices in 2011;
- The management estimates that the inflation impact on sales prices and raw materials will be negligible.

Goodwill resulting from business combination is attributable mainly to synergy, which was reached after integration of the Company in the Group's activity of dairy goods production.

### 12 Long-term receivables

Thousand Lit	Note	2011	2010
Prepayments to related parties	25	842	842
Loans granted to related parties, including interest	25	630	560
Long-term receivables from farmers		55	84
Other		32	1
		1,559	1,487
		1,559	1,487

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 is fully covered by 31 December 2012. The outstanding balance of the prepayment bears fixed interest. According to the amended agreement signed in 2011, the prepayment shall be fully covered by 31 December 2015.

A loan of 351 and 150 thousand Lit, issued to a related party ŪKB Šilgaliai, matures on 31 December 2014 and 30 May 2015 respectively. The loan bears fixed interest. Remaining amount of 129 thousand Lit are accrued interest which should be paid till 31 December 2013.

Long term receivables from farmers include prepayments to farmers for milk. The outstanding balance of the prepayments bears an administrative fee which is equivalent to interest.

## Notes to consolidated financial statements

### 12 Long-term receivables (continued)

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

### 13 Inventories

Thousand Litas	2011	2010
Finished production	18,057	12,079
	<u>18,057</u>	<u>12,079</u>
Raw materials	217	377
Other auxiliary materials	4,983	3,787
Goods for re-sale	2	707
	<u>23,259</u>	<u>16,950</u>

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

As at 31 December 2011 a write down of inventories (tare) amounts to 48 tLTL (2010 : 68 tLTL). The write down of inventories to net realizable value is included in administrative expenses.

As at 31 December 2011 the inventories with the carrying amount of up to 13 million LTL (2010 : up to 16.5 million LTL) have been pledged to financial institutions (note 18).

### 14 Trade and other receivables

Thousand Litas	Note	2011	2010
Trade receivables		16,169	11,410
Taxes receivable (excluding income tax)		1,967	1,381
Loans issued to related parties, including calculated interest	25	601	-
Short-term loan to management	25	280	-
Prepayments to management	25	150	-
Other		216	195
		<u>19,383</u>	<u>12,986</u>

Credit and foreign currency risks, encountered by the Group, and impairment losses related to trade and other receivable amounts are disclosed in note 26.

Receivable taxes as at 31 December 2011 mainly include receivable VAT.

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

A loan (280 tLTL) issued to the management under a loan agreement, dated 7 October 2011, matures on 30 April 2012.



## Notes to consolidated financial statements

### 14 Trade and other receivables (continued)

A loan (439 tLTL) issued to a related company ŪKB Šilgaliai, matures on 31 December 2012. The outstanding balance bears fixed interest, the calculated and receivable amount of which is 111 tLTL, the rest amount – administration fee for advances paid which is treated as interest income.

### 15 Prepayments

Thousand Litas	Note	2011	2010
Prepayments	a)	1,252	1,478
Prepayments to related parties	25	351	314
		1,603	1,792

a) Prepayments include amounts prepaid to suppliers for goods and services and to farmers for raw milk.

### 16 Cash and cash equivalents

Thousand Litas	2011	2010
Cash at bank	283	285
Cash in hand	54	73
	337	358

All account balances as at 31 December 2011 have been pledged to secure bank loans (note 18). Furthermore, cash inflows in the bank accounts are pledged to secure bank loans (note 18).

The interest rate risk, encountered by the Company, related to cash and cash equivalents, is disclosed in note 26.

### 17 Capital and reserves

Authorized capital of the Parent Company as at 31 December 2011 comprised 11,943,000 ordinary shares at par value of 1 LTL each. All shares are fully paid.

According to the Law on Companies, 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 of retained losses and increase of the share capital.

#### *Share premium*

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

## **Notes to consolidated financial statements**

### **17 Capital and reserves (continued)**

#### ***Revaluation reserve***

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

The reserve is decreased annually for the depreciation in respect to revalued buildings and disposal of revalued assets. The decrease is recognized as a transfer directly in equity.

When depreciating the revalued 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 authorized capital.

#### ***Hedging reserve***

As at 31 December 2011 the hedging reserve comprises the effective part of the fair value of the derivative financial instrument in relation to hedging against interest rate fluctuations.

#### ***Reserve for acquiring own shares***

The extraordinary shareholders meeting, dated 5 November 2011, decided to acquire up to 10 % of own shares. Based on this decision, a reserve for acquisition of own shares amounting to 5,768 tLTL, which is a maximum amount, was established.

According to the Lithuanian legislation, the reserve will be retained for as long as the Company performs acquisition of own shares.

## Notes to consolidated financial statements

### 18 Interest bearing loans and finance lease liabilities

The Group's interest bearing loans and finance lease liabilities are as follows:

Credit institution	Ref.	Currency	Contractual amount, tLTL	Balance at 31-12-2011	Balance at 31-12-2010
AB SEB Bankas	a)	EUR	6,284	3,886	7,442
AB Bankas SNORAS	b)	EUR	2,072	-	3
AB Bankas SNORAS	b)	EUR	8,386	-	5,757
AB SEB Bankas	c)	EUR	3,459	2,595	3,027
AB Bankas SNORAS	d)	EUR	5,000	3,588	2,223
Swedbank, AB	e)	EUR	6,300	3,616	4,434
Swedbank, AB	f)	EUR	11,999	9,050	11,200
AB SEB Bankas	g)	EUR	7,078	677	1,346
AB SEB Bankas credit line	h)	EUR	4,924	3,629	2,341
AB Bankas SNORAS	j)	LTL	4,829	1,248	1,664
Nordea Bank Finland Plc	k)	EUR	6,008	6,008	-
AB Swedbank overdraft	l)	LTL	1,600	1,550	-
AB SEB Bankas	m)	EUR	6,319	2,267	-
AB SEB Bankas	n)	EUR	12,603	3,437	-
AB SEB Bankas	r)	LTL	3,000	2,454	-
Financial lease liabilities	n)	EUR		1,256	1,263
Total liabilities				45,261	40,700
Less: current part				-21,144	-18,421
Payable after one year				24,117	22,279

a) The loan (1,820 thousand EUR) was granted on 28 April 2008 to AB Vilkyškių pieninė for acquisition of AB Kelmės Pieninė. Repayment started on 30 June 2008, and is performed in equal quarterly instalments, the final settlement term being 27 April 2015. The determined interest rate is related to 6 months EURIBOR + margin.

b) All credit lines, held at the issue date of the financial statements, have been repaid.

c) The loan (1,002 thousand EUR) was granted to the Group on 21 April 2008 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan started as of 31 March 2010, in equal quarterly instalments and ends on 31 April 2015. The loan is secured by pledging the buildings and equipment with a subsequent pledge, and the acquired equipment with the original pledge. The contractual interest rate is 6 months EURIBOR + margin.

d) The loan (1,448 thousand EUR) was issued to the Group on 1 October 2010 for financing the project of EU Structural Funds for the period 2007-2013. Repayment of the loan started as of 20 October 2010, in equal quarterly instalments and ends on 3 February 2017. The loan is secured by pledging buildings and equipment by secondary pledge and equipment by primary pledge. The contractual interest rate is 6 months EURLIBOR + margina.

e) The loan was granted to the Group (1,825 thousand EUR) on 28 April 2008 for acquisition of AB Kelmės Pieninė. Repayment of the loan starts as of 30 September 2008 in equal annual instalments until 31 May 2016. The loan is secured by pledging inventories, equipment, current and future cash inflows on account at AB Swedbank, AB as well as 50 per cent of the shares of AB Kelmės Pieninė. The contractual interest rate is 6 months EURIBOR + margin.

## **Notes to consolidated financial statements**

### **18 Interest bearing loans and finance lease liabilities (continued)**

f) A loan (3,475 thousand EUR) has been issued to AB Kelmės Pieninė for working capital needs. The repayment in quarterly instalments started in October 2009 and ends in December 2015. The loan is secured by pledging the buildings, equipment, current and future cash balances and inventories. The contractual interest rate is 6 months EURIBOR + margin.

g) A loan agreement was signed on 11 February 2006 with AB Vilkyškių Pieninė for acquisition of new equipment for whey processing, cheese production and for expansion of the capacities of the milk acceptance and normalisation workshop. The loan is secured by pledging movable and immovable assets. The loan is being repaid in equal instalments until 20 December 2012. The contractual interest rate is 6 months EURIBOR + margin.

h) According to the agreement, dated 14 June 2006, AB Vilkyškių Pieninė was granted a credit facility of 1,426 thousand EUR for working capital needs. The liability matures on 19 July 2012. To secure the liability the Company has pledged its real estate and equipment by secondary pledge. The contractual interest rate is 6 months EURIBOR + margin.

j) Based on the loan agreement, dated 28 February 2007, AB Modest received a loan of 2,066 tLTL for financing the EU Project for 2004-2006. Based on the same agreement signed with AB bankas SNORAS a loan of 600 tLTL was received for working capital needs. Repayment of the loan in equal monthly instalments started on 28 March 2009 and will end on 28 December 2013.

The loan is secured by pledging the buildings, equipment, inventories and account balances. The contractual interest rate is 6 months LIBOR + margin.

k) A loan agreement was signed by AB Modest on 20 January 2011 for working capital needs. The loan shall be paid in equal quarterly instalments from 20 January 2012 to 20 January 2016. The loan is secured by pledging the buildings and current and future inflows in the bank account. The contractual interest rate is 1 month EURIBOR + margin.

l) An overdraft at the maximum amount of 1,600 tLTL has been granted to AB Kelmės Pieninė for working capital needs. The facility matures on 8 June 2012. The annual interest is 3 months VILIBOR + margin. The loan is secured by pledging non-current assets, land rent rights, account balances and inventories.

m) On 10 May 2011 AB Vilkyškių Pieninė was granted a loan (1,830 tEUR) for financing investments. The loan shall be repaid by May 2012 by monthly instalments. The loan is secured by pledging the buildings and equipment with subsequent pledge and the acquired equipment with original pledge, as well as by pledging the current and the future cash inflows in all currencies. The contractual interest rate relates to 1 month EURLIBOR + margin.

n) On 21 June 2011 AB Vilkyškių Pieninė was granted a loan (3,650 tLTL) for financing investments. The repayment will start as of June 2012 making equal monthly instalments until June 2018. The loan is secured by pledging the buildings and equipment with subsequent pledge and the acquired equipment with original pledge, as well as by pledging the current and the future cash inflows in all currencies. The contractual interest rate relates to 1 month EURLIBOR + margin.

r) On 14 June 2011 AB SEB Bankas granted an overdraft of 3 million LTL to AB Vilkyškių Pieninė for working capital needs. The credit facility shall be repaid by 30 April 2012. The Company has pledged its current and future inflows in the accounts in all currencies. The contractual interest rate relates to one night VILIBOR + margin.

## Notes to consolidated financial statements

### 18 Interest bearing loans and finance lease liabilities (continued)

p) The Company has financial lease agreements with UAB SEB Banko Lizingas, UAB Swedbank Lizingas and UAB Pohjola Finance. The mentioned agreements mature in April 2016.

AB Vilkyškių Pieninė undertakes to maintain the following ratios:

To AB SEB bankas:

- 1) Quarter consolidated net financial debt to EBITDA ratio not higher than 3.
- 2) Quarterly coverage rate not lower than 1.2.

To Swedbank, AB:

- 1) Consolidated loan coverage ratio throughout the contract period shall be not less than 1.1.
- 2) Consolidated equity throughout the contract period shall be not less than 30 % of the total assets presented in the consolidated financial statements.
- 3) Total consolidated financial liabilities to consolidated EBITDA ratio throughout the contract period shall be not higher than 4.

#### *Loan repayment schedules, except for finance lease liabilities:*

Thousand Lit	2011	2010
Within one year	20,502	17,764
From 1 to 5 years	23,503	21,329
After 5 years	-	344
	44,005	39,437
	44,005	39,437

#### *Finance lease liabilities*

The financial lease payments are as follows:

Within 1 year	671	682
From 1 to 5 years	637	621
	1,308	1,303
Future interest on financial lease	-52	-40
Present value of financial lease liabilities	1,256	1,263

The financial lease agreements do not contain any contingent lease payments.

Interest rate on leasing liabilities is variable and relates to EUR LIBOR (6 or 12 months) + margin.

## Notes to consolidated financial statements

### 19 Government grants

Thousand Lit	2011	2010
Carrying amount at the beginning of the period	8,479	8,203
Grants received	150	993
Amortization recognized in the income statement	-787	-717
Carrying amount at the end of the period	7,842	8,479

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

On 28 October 2009 AB Vilkyškių Pieninė and National payment agency signed an agreement for provision of a government grant up to 6,634 thousand Lit according to project "Increase of competitiveness in milk processing". Total estimated investment project cost amounts to 33,171 thousand Lit. As at 31 December 2011 the value of the completed project amounts to 14,646 tLTL, an amount received is 843 tLTL. The grant is amortised in proportion to depreciation of the assets concerned.

### 20 Deferred tax liabilities

Deferred tax assets and liabilities calculated applying a 15% tax rate as at 31 December 2011 (31 December 2010: 15%), are attributed to the following items:

Thousand Lit	Assets		Liabilities		Net value	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment		-	3,492	3,222	3,492	3,222
Vacation reserve	-195	-193	-	-	-195	-193
Inventories	-8	-10	-	-	-8	-10
Government grants	-354	-280	-	-	-354	-280
Other accruals	-	-	-	-	-	-
Tax losses to be carried forward	-302	-	-	-	-302	-
Deferred tax (asset) / liabilities	-859	-483	3,492	3,222	2,633	2,739

Tax losses can be carried forward for an indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is lost if the Company changes its activities due to which these losses were incurred. This is not applicable when the Company terminates its activities due to reasons which do not depend on Company itself. According to the Law on Income Tax, tax losses may be carried forward to future period indefinitely.

## Notes to consolidated financial statements

### 20 Deferred tax liabilities (continued)

A decrease in the deferred tax liability by 68 tLTL, related to revaluation of buildings, was recognized by increasing the revaluation reserve in equity. The decrease in the deferred tax liability, recognized in the income statement, amounted to 37 tLTL.

### 21 Trade and other payable amounts

Thousand Litas	2011	2010
Trade payables	24,537	17,093
Employment related liabilities	3,591	3,363
Prepayments received	331	550
Payable dividends		125
Other payable amounts and accrued costs	771	626
	<u>29,230</u>	<u>21,757</u>

Foreign currency and liquidity risks of the Group, related to trade and other payable amounts are disclosed in note 26.

### 22 Derivative financial instruments

Thousand Litas	2011	2010
Interest rate swap transaction to hedge against cash flow fluctuations (non-current part)	1,045	-
Interest rate swap transaction to hedge against cash flow fluctuations (current part)	352	31
	<u>1,397</u>	<u>31</u>

Derivatives are stated at fair value. As at 31 December 2011 the Company had three interest rate swap transactions with AB SEB Bankas for the loans amounting to 1,830 tEUR, 3,900 tEUR and 2,317 tEUR. The loans were subject to variable interest rates related to 3 months and 6 months EURIBOR+ margin. The Company encounters with changes, volatility of cash flows related to forecasted interest payments, 3 months and 6 months EURIBOR (guiding interest rate). Due to this, the Company entered into swap transactions with AB SEB Bankas where fixed interest on loans has been determined:

- The loan of 1,830 tEUR is subject to a fixed interest rate for the period from 10 February 2012 to 10 May 2016. The Company pays fixed interest and receives a variable interest rate of 3 months EURIBOR.
- The loan of 3,900 tEUR is subject to a fixed interest rate for the period from 10 November 2011 to 10 November 2016. The Company pays fixed interest and receives a variable interest rate of 6 months EURIBOR.
- The loan of 2,317 tEUR is subject to a fixed interest rate for the period from 20 February 2012 to 20 February 2017. The Company pays fixed interest and receives a variable interest rate of 3 months EURIBOR.

The above hedging instruments were evaluated as being effective.

The liquidity risk related to derivative financial instruments is disclosed in note 26.

## Notes to consolidated financial statements

### 23 Contingencies

Material contractual liabilities as at 31 December 2011 are:

Thousand Lit	2011	2010
Acquisition of property, plant and equipment	15,787	3,064
Purchase of raw materials	13,338	7,866
	29,125	10,930
	29,125	10,930

On 28 October 2009 AB Vilkyškių Pieninė and the National payment agency signed an agreement on government grants up to 6,634 tLTL according to the project “Increase of competitiveness in milk processing”. The total Project amounts to 33,171 tLTL. As at 31 December 2011 the value of the completed project amounts to 14,646 tLTL, and the grant received amounts to 843 tLTL.

The following assets of the Company were pledged as at 31 December 2011 to secure the bank loans (note 18):

- Current and future cash inflows in the accounts at different banks;
- Property, plant and equipment with the carrying amount of 47,596 tLTL;
- Inventories with the market value of 13 million LTL.

### 24 Staff costs

Thousand Lit	2011	2010
Staff costs are included in the following items:		
Cost of finished production	16,832	14,806
Distribution and administrative costs	4,840	4,269
Other operating costs	-	366
Construction in progress	14	-
	21,686	19,441
	21,686	19,441

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

Staff costs include social security tax 30.98% calculated from the nominal salaries, paid by the Group.

Staff costs include remuneration to the Group’s management of 1,476 tLTL, including social security contributions (2010 : 1,417 tLTL).



## Notes to consolidated financial statements

### 25 Transactions with related parties

Thousand Litas	Note	<b>2011</b>	<b>2010</b>
<b>Receivable amounts</b>			
<i>Prepayments</i>			
ŪKB Šilgaliai	12, 14	842	1,156
		842	1,156
<i>Loans granted, including interest</i>			
ŪKB Šilgaliai	12, 14	1,231	560
Short-term loan to management		280	-
		1,511	560
		<b>2,353</b>	<b>1,716</b>
<b>Interest income</b>			
ŪKB Šilgaliai		31	21
		<b>31</b>	<b>21</b>
<b>Sale of raw materials, goods and services</b>			
ŪKB Šilgaliai		1	63
		<b>1</b>	<b>63</b>
<b>Purchase of raw materials, goods and services</b>			
ŪKB Šilgaliai		1,068	627
		<b>1,068</b>	<b>627</b>

ŪKB Šilgaliai is a supplier of raw milk. The major shareholder of the Group and persons related to him are participants of ŪKB Šilgaliai.

Prepayments to management are accounted for in receivable amounts:

Thousand Litas	<b>2011</b>	<b>2010</b>
Other receivable from the management	150	18

## Notes to consolidated financial statements

### 26 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 Lit	Note	Carrying amount	
		2011	2010
Trade receivables	12,14	16,515	11,703
Other receivables and receivable taxes	12,14	3,057	2,419
Prepayments to management	14,25	150	-
Loans granted	12,14,25	1,220	351
Cash and cash equivalents	16	377	358
		21,319	14,831

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

Thousand Lit	Carrying amount	
	2011	2010
Lithuania	9,247	8,393
Latvia	2,001	2,733
Russia	2,116	69
Estonia	1,530	344
Other	1,621	164
	16,515	11,703

#### 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 consolidated financial statements

### 26 Financial instruments and risk management (continued)

#### Impairment losses (continued)

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

Thousand Lit	Gross 31 December 2011	Impairment 31 December 2011	Gross 31 December 2010	Impairment 31 December 2010
<b>Related parties:</b>				
Not past due	2,790	-	1,716	-
Past due 0-30 days	3	-	-	-
Past due 31-60 days	4	-	-	-
More than 60 days	57	-	-	-
	2,854	-	1,716	-
<b>Other parties:</b>				
Not past due	18,245	-	13,445	-
Past due 0-30 days	978	-	781	-
Past due 31-60 days	397	-	20	-
More than 60 days	409	-338	599	-296
	20,029	-338	14,845	-296
	<b>22,883</b>	<b>-338</b>	<b>16,561</b>	<b>-296</b>

Impairment losses in relation to trade and other receivables amount to 338 tLTL as at 31 December 2011 (2010: 296 tLTL).

The movement in the allowance for impairment in respect of trade and other receivables, including derivative financial instruments, during the year was as follows:

Thousand Lit	Carrying amount	
	2011	2010
Balance as at 1 January	-296	-
Impairment loss recognized	-200	-296
Recovered impairment losses	158	-
Balance as at 31 December	-338	-296

Recognition and reversal of the impairment loss is recorded under administrative costs (note 6).

**Notes to consolidated financial statements****26 Financial instruments and risk management (continued)****Impairment losses (continued)**

Based on payment history and extensive analysis of customers' solvency, the Management of the Group believes that the amounts which past due more than 30 days are not impaired.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 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.

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

**31 December 2011**

Thousand Lit	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
<b>Financial liabilities</b>						
AB SEB bankas loans	18,945	(19,696)	(8,358)	(4,426)	(2,422)	(4,490)
AB bankas SNORAS loans	4,836	(5,054)	(1,721)	(653)	(1,280)	(1,400)
Swedbank, AB loans	14,216	(15,236)	(3,071)	(1,843)	(3,246)	(7,076)
Nordea Bank Finland Plc. loan	6,008	(6,388)	(795)	(782)	(1,531)	(3,280)
Finance lease liabilities	1,256	(1,308)	(366)	(305)	(391)	(246)
Derivative financial instrument	1,397	(1,397)	(176)	(176)	(352)	(693)
Trade and other payable amounts	25,639	25,639	25,639	-	-	-
	<u>(72,297)</u>	<u>(74,718)</u>	<u>(40,126)</u>	<u>(8,185)</u>	<u>(9,222)</u>	<u>(17,185)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. In 2012 the Company is planning to negotiate with the banks and agree on new maturity dates for the overdrafts and credit lines.

## Notes to consolidated financial statements

### 26 Financial instruments and risk management (continued)

#### Liquidity risk (continued)

##### 31 December 2010

Thousand Lit	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Financial liabilities</b>							
AB SEB bankas loans	14,156	(16,492)	(1,806)	(5,660)	(2,205)	(6,821)	-
AB bankas SNORAS loans	9,647	(11,223)	(7,407)	(767)	(2,062)	(987)	-
Swedbank, AB loans	15,634	(18,127)	(1,639)	(1,883)	(3,440)	(10,624)	(541)
Finance lease liabilities	1,263	(1,303)	(373)	(309)	(452)	(169)	-
Derivative financial instruments	31	(31)	(31)	-	-	-	-
Trade and other payable amounts	18,349	(18,349)	(18,349)	-	-	-	-
	<u>59,125</u>	<u>(65,570)</u>	<u>(29,650)</u>	<u>(8,619)</u>	<u>(8,159)</u>	<u>(18,601)</u>	<u>(541)</u>

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

	2011	2010
Loans and finance lease liabilities	2.3% - 6%	3.5%

#### Currency risk

The Group's exposure to the foreign currency risk (expressed in thousand Lit), using the exchange rates, valid as at 31 December 2011 was as follows:

	31 December 2011			31 December 2010		
	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>	<u>LTL</u>	<u>EUR</u>	<u>LVL</u>
Long-term receivables	1,559	-	-	1,487	-	-
Trade and other receivables	10,431	8,237	715	9,347	2,933	706
Cash and cash equivalents	281	56	-	323	35	-
Loans and finance lease liabilities	(5,252)	(40,009)	-	(1,664)	(39,036)	-
Derivative financial instruments	-	(1,397)	-	-	31	-
Trade and other payables	(22,686)	(6,544)	-	(18,222)	(3,535)	-
Net exposure	<u>(15,667)</u>	<u>(39,657)</u>	<u>715</u>	<u>(8,729)</u>	<u>(39,634)</u>	<u>706</u>

## Notes to consolidated financial statements

### 26 Financial instruments and risk management (continued)

#### Currency risk (continued)

The following currency exchange rates were applied during the year:

	<b>Average</b>	
	2011	2010
EUR	3.4528	3.4528
LVL	4.8886	4.8643

The following currency exchange rates were applied as at 31 December:

	2011	2010
EUR	3.4528	3.4528
LVL	4.9421	4.8643

#### *Sensitivity analysis*

The functional currency of the Parent Company and subsidiaries 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 2011 year are denominated in LTL and EUR, therefore the Group is not exposed to significant foreign currency exchange risk.

#### **Interest rate risk**

The Group's borrowings bear variable interest rates related to EURIBOR/LIBOR + margin. The average effective interest rate in 2011 was close to the interest rate actually paid during 2011.

The Group has entered into three interest rate swap agreements with a bank, by which it partially hedges its exposure to significant interest rate fluctuations. The fair value of the interest rate swap agreements, amounting to 1,397 tLTL (2010 : 31 tLTL) is included in the item of derivative financial instruments

## Notes to consolidated financial statements

### 26 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:

Thousand Litas	Carrying amount	
	2011	2010
<b>Fixed rate financial instruments</b>	-	-
	-	-
Thousand Litas	Carrying amount	
	2011	2010
<b>Variable rate financial instruments</b>		
AB SEB Bankas loans	18,945	14,156
Swedbank, AB loans	14,216	15,634
AB Bankas SNORAS loans	4,836	9,647
Nordea Bank Finland Plc	6,008	-
Financial lease liabilities	1,256	1,263
	45,261	40,700
	<b>45,261</b>	<b>40,700</b>

#### *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 2010.

Effect in thousand Litas	Profit (loss)	
	100 bp increase	100 bp decrease
<b>31 December 2011</b>		
Variable rate instruments	(453)	453
<b>31 December 2010</b>		
Variable rate instruments	(407)	407

## Notes to consolidated financial statements

### 26 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 2011 comprise derivatives. The Group does not have any other financial instruments stated at fair value as of 31 December 2011 and 2010.

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 summarized as follows:

Thousand Lit	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term receivables	1,559	1,559	1,487	1,487
Trade and other receivables	19,383	19,383	12,986	12,986
Cash and cash equivalents	377	377	358	358
Loans and financial lease liabilities	(45,261)	(45,261)	(40,700)	(40,700)
Derivative financial instruments	(1,397)	(1,397)	(31)	(31)
Trade and other payables	(29,230)	(29,230)	(21,757)	(21,757)
	<u>(54,569)</u>	<u>(54,569)</u>	<u>(47,657)</u>	<u>(47,657)</u>

Financial liabilities to banks and leasing companies are related to variable interest rate, therefore the carrying amount approximates the fair value.

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)



**Notes to consolidated financial statements****26 Financial instruments and risk management (continued)****Fair value hierarchy (continued)****As at 31 December 2011**

Thousand Litas

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Long-term receivables	-	-	1,559	1,559
Trade and other receivables	-	-	19,383	19,383
Cash and cash equivalents	-	-	377	377
Loans and financial lease liabilities	-	-	(45,261)	(45,261)
Derivative financial instruments	-	(1,397)	-	(1,397)
Trade and other payables	-	-	(29,230)	(29,230)
	-	(1,397)	(53,172)	(54,569)

**As at 31 December 2010**

Thousand Litas

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Long-term receivables	-	-	1,487	1,487
Trade and other receivables	-	-	12,986	12,986
Cash and cash equivalents	-	-	358	358
Loans and financial lease liabilities	-	-	(40,700)	(40,700)
Derivative financial instruments	-	(31)	-	(31)
Trade and other payables	-	-	(21,757)	(21,757)
	-	(31)	(47,626)	(47,657)

**Price risk**

Prices of milk and dairy products vary depending on a situation in the market. The Group seeks to minimize 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.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group 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 2011 and 31 December 2010.

## **Notes to consolidated financial statements**

### **26 Financial instruments and risk management (continued)**

#### **Capital management (continued)**

The Group 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 Group is obligated to keep to capital requirements set externally by banks. The requirement is that the ratio (equity– revaluation reserve) / (total assets) is not lower than 0.3. The management estimates that the Group shall meet the requirements.

### **27 Subsequent events**

In March 2012, new cheese production equipment was implemented, which increased the production capacities of AB Vilkyškių Pieninė by 30%. The total value of the Project amounts to approximately 16 million LTL. The Project is partly financed from the EU structural funds.

On 23 February 2012 AB Vilkyškių pieninė signed loan agreement with Nordea Bank Finland Plc for an amount of 1,039 tEUR to re-finance the loan issued by AB Bankas Snoras.

On 23 February 2012 AB Modest signed loan agreement with Nordea Bank Finland Plc for an amount of 860 tEUR to AB Modest.

On 16 March 2012 the financial support of 1,6 million LTL was assigned to AB Modest in accordance with the first activity area “Processing of agricultural production and marketing” included in the facility “Processing of agricultural production and an increase of the added value” of the Lithuanian countryside development programme for 2007 – 2013.

There have been no other significant events subsequent to the end of the reporting period date that could materially affect the consolidated financial statements as at and for the year ended 31 December 2011.

**AB Vilkyškių Pieninė**  
**Consolidated annual report for the year 2011**

## **I. Letter of the Director General G. Bertasius of Vilkyškių pieninė AB to the Investors**

In 2011 the Group of Vilkyškių Pieninė increased the revenue by 19% and earned a consolidated profit of LTL 10,64 million (2010 : LTL 11,84 million). Due to successful development of the product portfolio, enforcement of positions in the local market and consolidation of the position in export markets in 2011, the Group gradually increased its sales volumes.

The Company paid particular attention to innovation and brand building. During the year 2011, the Group of Vilkyškių Pieninė introduced in the market 18 new products that have begun to take root both in local and export markets: an extended assortment of sweet curds and yogurt, new-type curds-spread of three flavours, developed exceptional types of savoury cheese, as well as other products.

The Company has participated in one of the major international exhibitions - ANUGA (Germany), where introduced itself under the trademark of Vilvi, used in export markets. The Company attracted great interest and established important contacts with partners from Germany, Holland, Scandinavian countries, Korea, Lebanon, Israel, and SAR.

The Company received an international acclaim for cheese „Prussia “and „Žalgiris“ in the exhibitions „Prodexpo 2011“ (in February) and „World Food Moscow“ (in September), where the brands were awarded gold medals, „MemelBlue“ – a bronze medal, „Vilkyškių“ sour cream of 30% - a bronze medal. Cheese „Legenda“ and „Žalgiris“ were nominated as „Russia’s trade network selection 2011“.

In 2011 the number of employees in the Company increased and amounted to 845 by the end of the year:

- ✓ AB Vilkyškių Pieninė – 505 employees;
- ✓ AB Modest – 159 employees;
- ✓ AB Kelmės Pieninė – 181 employees.

For implementation of its strategy – to produce more higher value-added products – the new cheese repining and storing chambers for exceptional quality cheese, covered with special repining coating (Žalgiris, Prūsija, Legenda), were implemented in AB Vilkyškių Pieninė in 2011. An agreement was signed with the company Tetra Pak for development of cheese production equipment that will allow increasing the production by 30%.

In 2011 a new line of pasteurisation was implemented in the production plant Modest that enabled to improve the quality of products. Furthermore, installation of the warehouse management system was completed in 2011 due to which efficiency in the warehouse has significantly improved.

During 2011 the Group paid particular attention to consolidation of the trademark position in the local market.. Acknowledgement of Vilkyškių Pieninė was growing rapidly, especially due to the image campaign. The Company plans to consistently increase its brand awareness, focusing on local retail networks and efficient development of product portfolio.

Gintaras Bertasius

## II. GENERAL INFORMATION ABOUT THE ISSUER

### Accounting period for which the annual report has been prepared

The report has been prepared for the year 2011.

### 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.vilkyskiu.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 Bertušius, tel. (8 441) 55330, fax (8 441) 55242.

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

### Key data about the Issuer

#### AB Vilkyškių Pieninė

Name of the Issue	Public Limited Company Vilkyskiu pienine (hereinafter referred as to the Company or Issuer)
Authorized capital	11,943,000 LTL
Registered office	Vilkyškiai, Pagegiai municipality
Telephone number	8-441 55330
Fax number	8-441 55242
E-mail address	info@vilkyskiu.lt
Legal - organizational form	public limited company
Date and place of registration	The 10 <sup>th</sup> of May 1993
Date and place of re-registration	The 30 <sup>th</sup> of December 2005, Taurage Subsidiary of State Enterprise Center of Registers
Registration No.	060018
Code in the Register of Enterprises	277160980
Internet address	<a href="http://www.vilkyskiu.lt">http://www.vilkyskiu.lt</a>

## AB Modest

Name of the subsidiary	Public limited company Modest (hereinafter – AB Modest)
Authorized capital	5,617,118 LTL
Registered office	Gaurės 23, Tauragė
Telephone number	8-446 72693
Fax number	8-446 72734
E-mail address	modest@vilkyskiu.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	<a href="http://www.vilkyskiu.lt">http://www.vilkyskiu.lt</a>

## 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@vilkyskiu.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	<a href="http://www.vilkyskiu.lt">http://www.vilkyskiu.lt</a>

### Nature of the Issuer's core business

Core business of Vilkyskiu pienine 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.

### Contracts with intermediaries of the public circulation of securities

Vilkyskiu pienine 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 Vilkyskiu pienine AB.

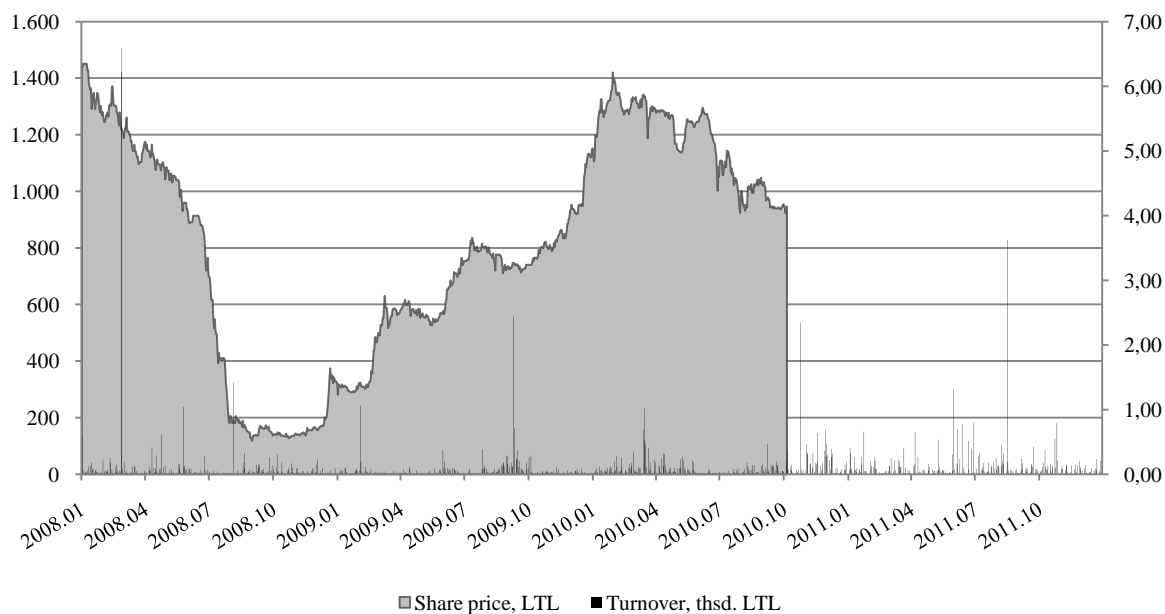
On the 15<sup>th</sup> of October 2007 Vilkyskiu pienine AB entered into the contract with Financial Broker Company Orion Securities UAB on the market making.

### Trading in the Issuer's securities on the regulated markets

Trading in ordinary registered shares of Vilkyskiu pienine AB on Vilnius Stock Exchange:

Quarter		Price (Lt)		Turnover (Lt)	
Beginning	End	Maximum	Minimum	Maximum	Minimum
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
2010.01.01	2010.03.31	3.70	2.32	232,788	0.00
2010.04.01	2010.06.30	3.67	2.95	74,358	0.00
2010.07.01	2010.09.30	3.78	3.12	105,718	0.00
2010.10.01	2010.12.31	5.94	3.87	536,451	0.00
2011.01.01	2011.03.31	6.22	5.20	150,077	0.00
2011.04.01	2011.06.30	5.64	4.98	298,972	11.26
2011.07.01	2011.09.30	5.67	4.04	828,052	1,450.18
2011.10.01	2011.12.31	4.59	4.04	180,660	2,047.51

price change of VLP1L



### 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 17<sup>th</sup> of May 2006. ISIN code of securities is LT0000127508. From the 1<sup>st</sup> of January 2008 shares of Vilkyskiu pienine AB have been quoted in the Official List of Vilnius Stock Exchange. The name of securities: Ordinary Registered Shares of Vilkyskiu pienine 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**

#### **Legal basis for the Issuer's activities**

In conducting its business Vilkyskiu pienine 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.

#### **Brief description of the Issuer's history**

**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 tones 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 2000** LTL 3,84 million were invested into the construction of new workshops and into the major repairs. The company finished installing new fully computerised 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. This workshop was built in 1965 as a creamery and it corresponds with all raised



requirements. 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 waster 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.

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

In **2006** AB Vilkyškių Pienine 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 Pienine 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.

The second stage of the Project - In June 2007 the whey processing workshop of Vilkyškių pienine AB started operating. The total value of the mentioned workshop of Vilkyškių pienine AB is more than LTL 8 million. 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.

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

In January **2006** the Issuer acquired 80.25 percent of Modest AB shares. According to the decision No. 1S-3 made by the Competition Board on 12/11/2006, the Issuer has a right to acquire up to 100 percent of Modest AB shares. Now AB Vilkyškių pienine holds 99.7% voting rights of the subsidiary.

In April of **2008** Vilkyškiu pienine AB finally finished the transaction of the acquisition of Kelmės pienine AB and took an ownership to 99.09 percent of company's shares. The Group of Vilkyškiai now consists of three companies: Vilkyškiu pienine AB, Modest AB and Kelmės pienine AB.

In 2009 Modest AB, the subsidiary of Vilkyškių pieninė AB increased its share capital from 128,408 to 488,710 and in 2010 increased its share capital by addition cash contributions by Vilkyškių pieninė AB. The share capital has been increased from 617 118 LTL till 5 617 118 LTL.

**2009** – the grant agreement was signed with the National Paying Agency under the Ministry of Agriculture in respect of the first area of activities “Processing and marketing of agricultural products” of the facility “Processing of agricultural products and increase of added value” of the Lithuania's Rural Development Programme for the year 2007-2013. Total value of the investment project - LTL 33 million. During 2010-2011 period the company has used grants in amount LTL 14,6 million. In 2010 grant amount was LTL – 6,6 mln. Lt., actually received grant - LTL 0,8 mln. million.

**2010** – AB Vilkyškiu Pienine established the marketing and quality departments. Major investments were made in the refrigeration Equipment, cheese cutting and packaging line, and the project of warehouse management system implementation was launched.

**2011** – In 2011 investment was 1.8 million. LTL to a new cold - storage facilities, 0.8 million. litas to the water and washing facilities expansion. In 2011 signed a contract with Tetra Pak company for cheese production of equipment, which will Vilkyškių dairy 'produce 30 per cent. more cheese.

### **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, cheese Mozzarella, Riccota, Brinza. AB Kelmės Pieninė produces fresh dairy products – different types of curd products, sour cream, butter, kefir, yogurt, covered curd cheese.

The whole assortment of goods of AB Vilkyškių Pieninė Group comprises even 19 types of cheese having 84 different names of products, also 14 types of butter and butter mixtures, 5 types of sour cream and 26 types of curd products.

The group of companies may process 530 tones of milk within 24 hours. The utilization of the maximum capacity was limited by raw milk shortage in winter season (in winter, less milk is purchased than in summer), but recently the raw material is purchased outside Lithuania, in the European Union.

Tables bellow summarizes key consolidated indicators of production, trade and finance volumes of the Issuer.

Within the period of last five years key financial indicators were as follows:

Thousands LTL	2007	2008	2009	2010	2011
---------------	------	------	------	------	------

Revenue	136,274	151,981	159,318	244,273	290,133
EBITDA	17,478	-3,948	17,059	19,964	18,566
EBITDA margin	12.8%		10.7%	8.2%	6.4%
Amortisation and depreciation	3,786	5,652	6,008	5,928	6,200
Net profit	10,014	-11,969	6,723	11,842	10,641
Profit margin	7.3%		4.2%	4.8%	3.7%
Profit (loss) per share (Lites)	1.07	-1.00	0.56	0.99	0.88
Net financial debt	27,340	70,547	55,256	40,700	45,261

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

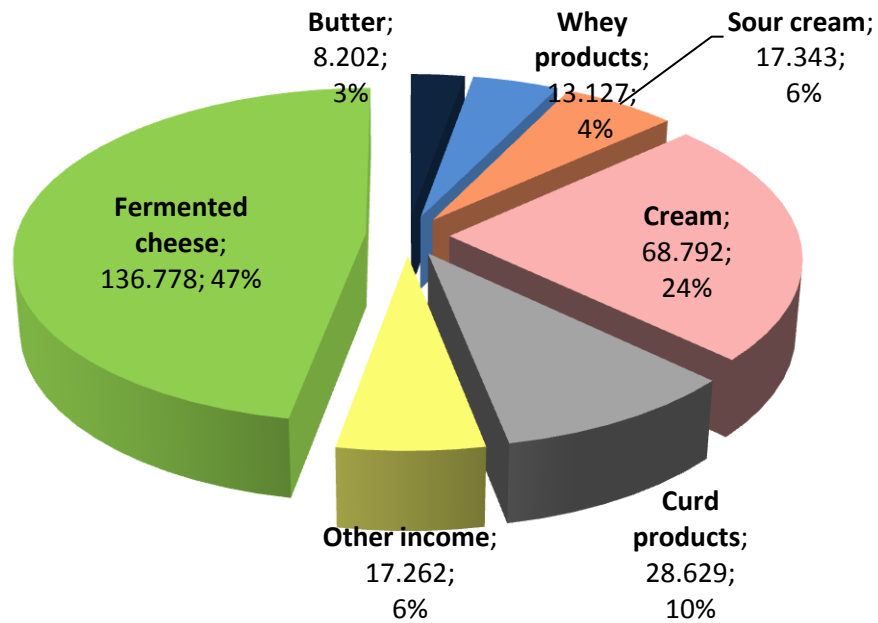
<b>Purchased raw milk (recalculated into base fatness)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Purchased milk, in tons	105,638	139,705	151,150	181,643	197,536
Purchased milk, in tLTL	75,619	95,603	77,705	153,784	174,039
Price of purchased milk, in LTL/t	715.8	684.0	514.1	846.6	881.0

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

<b>Amount of produced products, expressed in tons</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Fermented cheese	8,317	10,710	9,279	11,979	12,747
Butter	630	749	1,151	1,230	1,170
Cream	5,499	5,774	6,479	10,684	10,794
Whey concentrate	14,534	27,266	27,163	38,255	41,476
Sour cream		2,150	3,702	3,030	3,905
Curd products		1,618	3,770	3,247	3,848

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

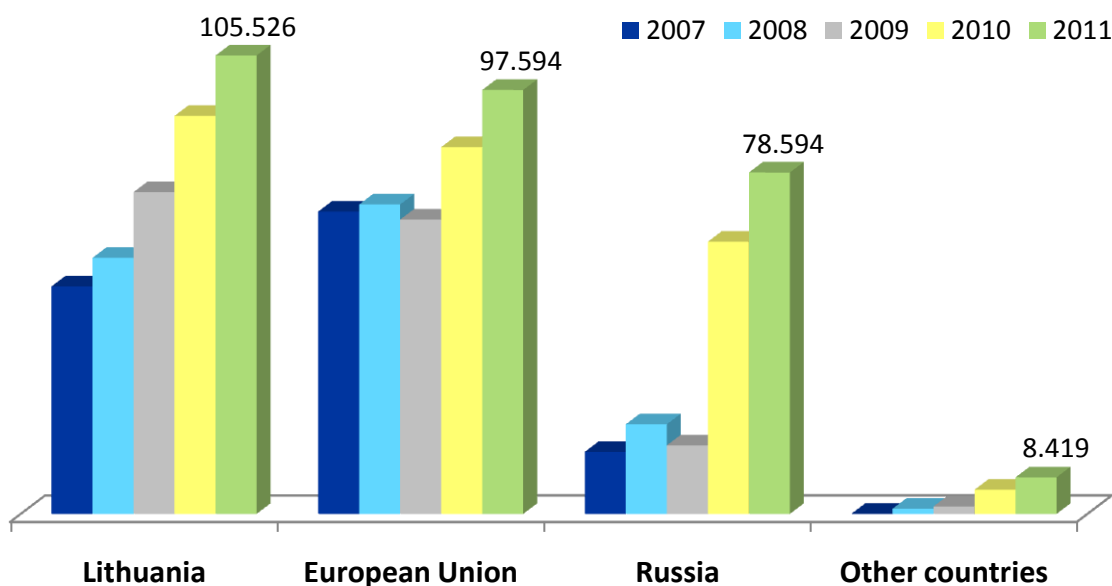
<b>Income from sold production, expressed in LTL thousand</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Fermented cheese	86,193	95,040	78,543	105,167	136,778
Butter	4,127	6,632	8,467	9,230	8,202
Cream	32,436	22,492	23,387	55,428	68,792
Whey products	6,533	4,543	4,306	10,107	13,127
Sour cream		8,662	13,864	12,998	17,343
Curd products		10,237	22,631	22,375	28,629
Other income	6,985	4,375	8,120	28,968	17,262
<b>Total income</b>	<b>136,274</b>	<b>151,981</b>	<b>159,318</b>	<b>244,273</b>	<b>290,133</b>



### Sales markets

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

Market	2007	2008	2009	2010	2011
European Union	69,594	71,238	67,763	84,431	97,594
Lithuania	52,367	58,938	74,067	91,626	105,526
Russia	14,279	20,630	15,775	62,661	78,594
Other countries	34	1,175	1,713	5,555	8,419
<b>Total</b>	<b>136,274</b>	<b>151,981</b>	<b>159,318</b>	<b>244,273</b>	<b>290,133</b>



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.

## 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 purchases milk on the milk purchase contracts. 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.

## 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.

## Risk factors related to the activity of the Issuer

### 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 Vilkyskiu pienine 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.

- 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 Bank and AB Swedbank). As at 31 December 2011 the total liabilities and the total assets ratio was 0,61. Interest on all major loans are related to EUR LIBOR and VILIBOR. The balance of financial liabilities amounted to 45,261 tLTL as at 31 December 2011. The loans are denominated in EUR. Repayment of loans is carried out as to time Schedule. There are no overdue payments. In 2011 interest rate SWAP's for loans amounting to LTL 27,8 million were signed for the periodo of 5 years.

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- 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.

### **The main investments of Vilkyskiu pienine AB during the last 5 years:**

In 2007 Vilkyskiu pienine AB invested about 8 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, our of which 1,5 million LTL was received from the EU structural funds as support.

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

In 2010, 1 million litas was invested in the development of energy sector (cold, heat, electricity). Cheese packaging line was acquired for almost 2 million litas.

In **2011** investment was 1.8 million. LTL to a new cold - storage facilities, 0.8 million. litas to the water and washing facilities expansion. In 2011 signed a contract with Tetra Pak company for cheese production of equipment, which will Vilkyškių dairy 'produce 30 per cent more cheese.

## **Patents, licences, contracts**

On the 8<sup>th</sup> 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 14<sup>th</sup> 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 18<sup>th</sup> of May 2004 Taurage workshop of Vilkyskiu pienine AB was granted a EU veterinary certificate.

In 2007 the main evaluation has been carried out in Vilkyskiu pienine 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 Vilkyskiu pienine 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 Vilkyskiu Pienine 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.

In 2010 the Company underwent ISO audits which stated the Company complies with the requirements of the standards ISO 9001:2000 and ISO 22000:2000.

In 2010 AB Kelmės pieninė received Export Licence to export production to Russia.

2011 m. atliktas Vilkyskiu pieninės gamybos auditas Rusijos Federacijos Techninio reglamento N88-Φ3 reikalavimų atitikimui.

## **Competitors**

Based on the calculation of Vilkyskiu Pienine AB, the company holds about 18 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 Vilkyskiu pienine AB has to compete with local producers, whose advantage is lower transportation expenses. However, Vilkyskiu pienine AB compensate this fact by offering higher value added cheese assortment.

### Dividends paid

Vilkyskiu pienine AB has no preferred shares, thus dividends are paid only for ordinary registered shares.

Vilkyskiu pienine AB payment of dividends within the last 5 years is as follows:

Dividends	2007 (for 2006)	2008 (for 2007)	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)
Dividends (LTL)	2,057,660	2,030,310	0	1,194,300	2,866,320
Dividends per share (LTL)	0.22	0.17	0	0.10	0.24
Number of shares	9,353,000	11,943,000	11,943,000	11,943,000	11,943,000

Kelmės pienine AB payment of dividends within the last 5 years is as follows:

Dividends	2007 (for 2006)	2008 (for 2007)	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)
Dividends (LTL)	-	-	-	-	12,997,950
Dividends per share (LTL)	-	-	-	-	5.21
Number of shares	2,494,808	2,494,808	2,494,808	2,494,808	2,494,808

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

## IV OTHER INFORMATION ABOUT THE ISSUER

### Structure of the Issuer's authorized capital

AB Vilkyskiu pienine structure of authorised 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	5,617,118	1.00	5,617,118

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

**Restrictions to transfer the securities**

There are no restrictions to transfer the securities.

**Shareholders**

**AB Vilkyškių Pieninė**

The total number of shareholders as at 31 December 2010 was 888. 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 value in LTL
Gintaras Bertašius	6,067,206	1	6,067,206
Linas Strėlis	1,015,000	1	1,015,000
Skandinaviska Enskilda Banken AB	985,427	1	985,427
Non-controlling interest	3,875,367	1	3,875,367
<b>Capital in total</b>	<b>11,943,000</b>	<b>1</b>	<b>11,943,000</b>

**AB Modest**

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
AB Vilkyškių Pieninė	5,601,277	1	5,601,277
Non-controlling interest	15,841	1	15,841
<b>Total capital</b>	<b>5,617,118</b>	<b>1</b>	<b>5,617,118</b>

## AB Kelmės Pieninė

Shareholder	Shares	Nominal value (in LTL)	Total nominal value (in LTL)
AB Vilkyškių Pieninė	2,476,122	1	2,476,122
Non-controlling interest	18,686	1	18,686
<b>Total capital</b>	<b>2,494,808</b>	<b>1</b>	<b>2,494,808</b>

### 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 17<sup>th</sup> 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 1<sup>st</sup> 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.

Quarter		Price (LTL)			Turnover, thou. LTL			Total turnover		Capitalization,
Beginning	End	Max.	Min.	Last	Max	Min	Last	Units	Thou. LTL	thou. LTL
2006.05.17	2007.04.20	5.82	4.60	5.65	648	0	0	531	2,821	52,844
2007.01.01	2007.03.31	5.82	5.20	5.70	126	0	0	57	312	53,312
2007.04.01	2007.06.30	5.70	5.01	5.20	381	0	20	168	931	48,636
2007.07.01	2007.09.30	6.50	4.80	5.90	3621	0	26	1,648	9,164	55,183
2007.10.01	2007.12.31	6.70	5.75	6.20	638	0	2	455	2,762	57,989
2008.01.01	2008.03.31	6.40	5.00	5.30	1507	0	12	694	3,848	49,571
2008.04.01	2008.06.30	5.52	4.51	4.70	238	0	16	245	1,210	56,132
2008.07.01	2008.09.30	4.75	2.05	2.26	325	0	3	246	913	26,991
2008.10.01	2008.12.31	2.50	0.52	0.60	70	0	0	731	696	7,166
2009.01.01	2009.03.31	0.79	0.52	0.63	242	0	1	1,040	660	7,524
2009.04.01	2009.06.30	1.69	0.60	1.35	83	0	3	531	567	16,123
2009.07.01	2009.09.30	2.86	1.25	2.32	558	0	0	1,024	1,954	27,708
2009.10.01	2009.12.31	2.75	2.27	2.40	66	0	5	197	486	28,663
2010.01.01	2010.03.31	3.70	2.32	3.52	233	0	51	560	1,775	41,084
2010.04.01	2010.06.30	3.67	2.95	3.21	74	0	2	305	1,030	37,620
2010.07.01	2010.09.30	3.78	3.12	3.68	106	0	11	256	909	44,906
2010.10.01	2010.12.31	5.94	3.87	5.87	536	0	44	561	2,667	70,929
2011.01.01	2011.03.31	6.22	5.20	5.64	150	0	14	262	1,503	66,761
2011.04.01	2011.06.30	5.64	4.98	5.46	299	0	180	374	2,027	65,149
2011.07.01	2011.09.30	5.67	4.04	4.20	828	1	7	486	2,349	49,480
2011.10.01	2011.12.31	4.59	4.04	4.14	181	2	9	331	1,430	49,480

### Shareholders who have special rights of control

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

### Voting right restrictions

There are no restrictions of voting right.

### 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.

### 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.

### Management Bodies of the Issuer

#### Board:

Name, surname	Education, speciality	Position held in the Issuer	Start of tenure	Finish of tenure
Gintaras Bertašius	Higher education, engineer - mechanic	Chairman of the Board, Director General	30/04/2010	30/04/2014
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Board, Technical Director	30/04/2010	30/04/2014
Rimantas Jancevičius	Further education, zoo - technician	Member of the Board, Stock Director	30/04/2010	30/04/2014
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	30/04/2010	30/04/2014
Andrej Cyba	Higher education	Member of the Board	30/04/2010	30/04/2014
Linas Strėlis	Higher education	Member of the Board	30/04/2010	30/04/2014

#### 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 Management Board, Director General	01/01/2006**
Vaidotas Juškys	Higher education, IT engineer	Chief operation officer (COO)	17/05/2010
Vilija Milaševičiutė	Higher education, Finance and credit	Member of the Board, Finance Director	01/05/2000
Rimantas Jancevičius	Further education, zoo - technician	Member of the Management Board, Stock Director	02/01/1996
Sigitas Trijonis	Higher education, engineer - mechanic	Member of the Management Board, Technical Director	01/09/1993
Arvydas Zaranka	Further education, Technologist of dairy products	Production Director	30/07/1995
Alvydas Eičas	Higher education, Pedagogy	Sales manager for Baltic countries	01/09/2004
Elena Šilovaitė	Higher education, Business Management and Administration	Head of Marketing Department	19/07/2010
Jolita Valantiniene	Higher education, Business Management and Administration	Head of Quality Department	01/09/2010

Rasa Tamaliūnaitė	Higher education, finance and accounting	Chief Accountant	18/06/2010
Ligita Pudžiuvelytė	Higher education, Economist	Senior Economist	20/05/2004
Rasa Trybienė	Higher education, Psychologist	Head of Personnel	22/05/2009
Rita Juodikienė	Higher education, Business Management and Administration	Head of Purchase Department	23/09/2002
Marius Beišys	Higher education, IT engineer	Head of IT Department	03/05/2011

\* 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 service in the company	Start of cadence	Finish of cadence
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board		11/12/2009	11/12/2013
Arvydas	Zaranka	Further education, technology of dairy products	Member of the Board		11/12/2009	11/12/2013
Vilija	Milaševičiūtė	Higher education, Finance and credit	Member of the Board, Finance Director		11/12/2009	11/12/2013
Kęstutis	Keršys	Higher education, economics	Director	12/07/2010	-	-
Milana	Buivydienė	Higher education, Economics and organisation of agricultural production	Chief accountant	04/07/2006	-	-
Dalia	Ivaščenko	Higher education, Technology of food products	Head of production	23/09/2008	-	-

### Key administration staff and management board of AB Kelmės Pieninė

Name	Surname	Education, speciality	Position held in the Issuer	Start of service in the company	Start of cadence	Finish of cadence
Gintaras	Bertašius	Higher education, engineer - mechanic	Chairman of the Board		06/05/2008	06/05/2012
Arvydas	Zaranka	Further education, technology of dairy products	Member of Board		06/05/2008	06/05/2012

Algirdas	Žukauskas	Higher education Zoo- engineer	General Director, member of the board		06/05/2008	06/05/2012
Asta	Mikalauskiene	Higher education Economist, Finance and Banking	Finance director	17/07/2007		
Daiva	Vasiliauskiene	Further education, Bookkeeping	Chief Accountant	01/07/2009		
Valė	Leonavičienė	Further education, technology of dairy products	Head of production	08/09/2010		

**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	6,067,206
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	2,270
Vilija	Milaševičiutė	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
Vaidotas	Juškyš	Chief operation officer (COO)	has no other shares, does not participate in the activity of other companies	4,632
Andrej	Cyba	member of the Board	Member of the board of asset management group of Invalda	-
Linas	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, Chairman of the Board of AB Kelmės Pieninė
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Kelmės Pieninė
Vilija	Milaševičiutė	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Vilkyškių Pieninė
Kęstutis	Keršys	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
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### 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, Chairman of the Board of AB Modest
Arvydas	Zaranka	Member of the Board	Shareholder of AB Vilkyškių Pieninė, Member of the Board of AB Modest
Algirdas	Žukauskas	Director, Member of the Board	Shareholder of ŽŪK Džiaugsmelis (1 share)
Asta	Mikalauskiene	Finance Director	has no other shares, does not participate in the activity of other companies
Daiva	Vasiliauskiene	Chief Accountant	has no other shares, does not participate in the activity of other companies

### Employees

#### Average salary per staff groups:

31 December 2011

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	11	8	3			8,639
Key specialists	55	33	21	1		3,048
Specialists	111	35	51	25		1,878
Workers	668	30	272	310	56	1,443
	<b>845</b>	<b>106</b>	<b>347</b>	<b>336</b>	<b>56</b>	<b>1,752</b>

31 December 2010

Staff group	Number of employees	Education				Average monthly salary (LTL)
		Higher	Further	Secondary	Incomplete secondary	
Executives	11	9	2			7,788
Key specialists	65	31	25	9		3,002
Specialists	98	30	49	19		2,074
Workers	581	22	258	250	51	1,478
	<b>735</b>	<b>92</b>	<b>334</b>	<b>278</b>	<b>51</b>	<b>1,758</b>

#### 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

### Summary of significant events in 2011

We hereby inform you that ordinary registered shares of AB Vilkyskiu Pienine began to be listed at stock exchanges of Munich and Stuttgart. The inclusion of the shares in the lists of the stock exchanges was initiated by the German bank Baader Bank AG.

The following decisions were taken at the Ordinary General Meeting of the Shareholders of AB Vilkyskiu pienine which was held on the 28 April 2011:

**Item 1 of the Agenda:** The annual report of the Company of the year 2010.

Resolution: To approve the annual report of the Company of the year 2010.

**Item 2 of the Agenda:** Auditor's Report regarding the Company's Financial Statements for 2010. Heard.

**Item 3 of the Agenda:** Approval of the Company's Separate and Consolidated Financial Statements for 2010.

Resolution: To approve the Company's Separate and Consolidated Financial Statements for 2010.

**Item 4 of the Agenda:** Profit (loss) appropriation for the year 2010.

Resolution: To approve the Audited Profit appropriation for the year 2010 as follows under IAS (in thousand Litass; in thousand EUR):

- |   |                       |
|---|-----------------------|
| 1) Non-appropriated profit (loss) at the end of the year 2009 - | 5.526 LTL (1.600 EUR) |
| 2) Net profit (loss) of the reporting period -                  | 3.064 LTL (887 EUR)   |
| 3) Transfers from reserves -                                    | 438 LTL (127 EUR)     |
| 4) Total profit (loss) to be appropriated -                     | 9.028 LTL (2.615 EUR) |
- from it:
- |  |                     |
|--|---------------------|
| - portion of the profit allocated to the legal reserve -         | 259 LTL (75 EUR)    |
| - portion of the profit allocated for payment of the dividends - | 2.866 LTL (830 EUR) |
- (or 0,24 LTL (0,0695 EUR) per ordinary registered share with nominal value of 1 LTL)
- |  |                  |
|--|------------------|
| - portion of the profit allocated to the other reserves -  | 0 LTL (0 EUR)    |
| - portion of the profit allocated to be paid as annual payouts (tantiemes) to board members, bonuses to employees and for other purposes - | 100 LTL (29 EUR) |
- 5) Non-appropriated profit (loss) at the end of the year 2010 carried forward to next financial year - 5.803 LTL (1.681 EUR)

The following decisions were taken at the Extraordinary General Meeting of Vilkyskiu pienine AB Shareholders which was held on the 5 November 2011:

**Item 1 of the Agenda:** A decision on the purchase of own shares. A decision with regard to the purchase of own shares has been approved:

- To purchase up to 10 percent of the Company's shares.
- The purpose of acquisition of own shares - to maintain and increase the price of the Company's shares.
- Period during which the Company may acquire own shares - until 30 April 2012.
- To set the maximum price per share of own shares to be acquired - at 1.40 EUR (4.83 LTL), at the same time setting the minimum acquisition price per share equal to the nominal value of a share, i.e. 0.29 EUR (1.00 LTL).
- To commit the Board to organise the purchase of own shares, to determine the procedure for purchase and sale of shares, time, number of shares and price, as well as to perform other actions relating thereto in compliance with the terms set in this resolution as well as in accordance with the requirements established in the Republic of Lithuania Law of Companies.

At the Ordinary General Meeting of the Shareholders of AB Vilkyskiu pienine which was held on the 30 April 2010. The following decisions were taken: approved the annual report of the Company of the year 2009, heard auditor's Report regarding the Company's Financial Statements for 2009, approved the Company's Separate and Consolidated Financial Statements for 2009.

The Company received an international acclaim for cheese „Prussia “and “Žalgiris” in the exhibitions „Prodexpo 2011“ (in February) and “World Food Moscow” (in September), where the brands were awarded gold medals, „MemelBlue“ - a bronze medal, “Vilkyškių” sour cream of 30% - a bronze medal. Cheese „Legenda“ and „Žalgiris“ were nominated as „Russia’s trade network selection 2011“.



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

### Announcement of Vilkyskiu pienine AB Group concerning disclosure of compliance with the Governance Code of the companies whose securities were traded on a regulated market in 2011

The public company „Vilkyskiu pienine“, 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
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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 ( <a href="http://www.vilkyskiu.lt/investuotojams/">www.vilkyskiu.lt/investuotojams/</a> ), 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.
<b>Principle II: The corporate governance framework</b>		
<b>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.</b>		
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	No	The bodies of the company are a general shareholders' meeting, Management Board and chief executive officer (Director General).

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 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.		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.
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. <sup>1</sup>	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. <sup>2</sup>	Yes	At present, in accordance with the Articles of Association, the Management Board of AB Vilkyškių Pieninė is composed of 6 members who are appointed for the period of four years. The Management Board of AB Modest is composed of 3 members. The Management Board of AB Kelmės Pieninė is composed of 3 members.

<sup>1</sup> 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 (e.g. formation of committees), 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.

<sup>2</sup> Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

		The number of members of the collegial body is sufficient to dominate decision-making.
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 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.	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 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 departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	No	AB Vilkyškių Pieninė 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 the recommendation.
<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>		
<b>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.<sup>3</sup></b>		
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	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

<sup>3</sup> 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.

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.		interest, following the order set out in these recommendations.  The Company does not have any regulation on the Management Board's activity.
3.3. Should a person be nominated for members 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.	Yes	The company could comprehensively comment the 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.
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.	Yes	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.  The members of Audit Committee of AB Vilkyškių Pieninė have relevant experience and a recent knowledge in the fields of accounting and audit.  No audit committee has been formed in AB Modest and AB Kelmės Pieninė.
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.	Yes	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.
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 sufficient <sup>4</sup> number of independent <sup>5</sup> members.	No	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.

<sup>4</sup> 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.

<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 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"> <li>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;</li> <li>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;</li> <li>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);</li> <li>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);</li> <li>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</li> </ol>	<p>No</p>	<p>The company has not defined the independence criteria of a member of the Management Board.</p>
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<sup>5</sup> 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>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;</p> <p>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;</p> <p>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 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>Not applicable</p>	<p>The company has not defined the independence criteria of a member of the Management Board.</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>	<p>No</p>	<p>The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.</p>

<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>	<p>No</p>	<p>The company has not implemented the practice of evaluation and disclosure of independence criteria of a member of the Management Board.</p>
<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.<sup>6</sup>. The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Yes</p>	<p>Members of the Management Board of AB Vilkyškių Pieninė are paid tantjems for their service on the Management Board. not remunerated for their service on the Management Board. Members of the Management Boards of AB Modest and AB Kelmės Pieninė are not paid for their service on the Management Board.</p>
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>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 monitoring<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
<p>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.<sup>8</sup></p>	<p>Yes</p>	<p>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.</p>

<sup>6</sup> 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 remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantjems) 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 (tantjems) 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.

<sup>7</sup> See Footnote 3.

<sup>8</sup> 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>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).</p>	<p>Yes</p>	<p>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.</p>
<p>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 event a member of the collegial body should be present in less than a half<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>In the year 2011 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.</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</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>

<sup>9</sup> 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.



<p>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>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 bodies<sup>10</sup>. 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 human resources department, executive directors or collegial management organs of the company concerned.</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 (if formed) 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 of AB Vilkyškių Pieninė 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>
<p>4.7. Activities of the collegial body should be organised 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 committees<sup>11</sup>. 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</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>The committees are not formed in AB Modest and AB Kelmės Pieninė.</p> <p>Pursuant to the Law on Audit of the Republic of Lithuania, it is planned to form the Audit Committee, the members and activity regulations of which shall be approved by the general shareholders meeting.</p>

<sup>10</sup> 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.

<sup>11</sup> 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).

<p>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>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 of AB Vilkyškių Pieninė 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. Audit Committee of AB Vilkyškių Pieninė 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 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>
<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>	<p>Yes</p>	<p>Each committee of AB Vilkyškių Pieninė is composed of 3 members.</p>
<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</p>	<p>Yes</p>	<p>The activity of Nomination and Remuneration Committee of AB Vilkyškių Pieninė is regulated by Regulations Statute Rules approved by the Management Board.</p> <p>The Regulations of Activity of Audit Committee of AB Vilkyškių Pieninė are approved by the General Meeting of Shareholders.</p>

<p>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>		<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>	<p>Yes</p>	<p>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>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> <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</p>	<p>Yes</p>	<p>The functions of Nomination committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.</p>

<p>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.  4.13.1. Key functions of the remuneration committee should be the following:  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;  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 obtained by executive directors and members of the management bodies from the affiliated companies;  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.  4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation.  5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;  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);  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</p>	<p>Yes</p>	<p>The functions of Remuneration committee of AB Vilkyškių Pieninė, which are set out in this recommendation, basically are carried out by the Nomination and Remuneration Committee of the company.</p>

<p>directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>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;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>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.</li> </ol> <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>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>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);</li> <li>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;</li> <li>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;</li> <li>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</li> </ol>	<p>Yes</p>	<p>AB Vilkyškių Pieninė 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>

<p>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 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</p>		
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<p>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 specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	<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>
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p> <p><b>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.</b></p>		
<p>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.</p>	Yes	<p>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.</p>
<p>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</p>	Yes	<p>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 organised once per month.</p>

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 <sup>12</sup> .		
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.
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.	No	The company cannot follow Recommendation 5.4 because the company does not establish any collegial supervisory bodies.
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>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.</b>		
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.	Yes	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.
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.	Yes	The Articles of Association, which defines the rights attached to the shares for the investors, are publicly announced on the website of the company.

<sup>12</sup> 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>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.<sup>13</sup> 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 the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</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 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"> <li>1. Draft decisions concerning each issue of the agenda of the General Shareholders' Meeting</li> <li>2. Audited annual financial statements and auditor's report</li> <li>3. Annual Report</li> </ol>

<sup>13</sup> 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.

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.	Yes	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.
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.	No	Until 01/01/2012 the Company has not applied the means of modern technologies, however, it plans to do it in the future.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b> <b>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 members of the corporate bodies.</b>		
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 authorised 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	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

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.		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.
<b>Principle VIII: Company's remuneration policy</b>		
<b>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.</b>		
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;	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.

<p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>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;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>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 termination under contracts for executive directors and members of the management bodies.</p>	No	
<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> <p>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;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>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;</p> <p>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;</p> <p>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</p>	No	

<p>year;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <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> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>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;</p> <p>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;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>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.</p> <p>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</p>	No	

<p>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>		
<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 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>	No	<p>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.</p>
<p>8.13. Shares should not vest for at least three years after their award.</p>	No	<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</p>		

remuneration (the non-variable plus the variable components).		
8.16. Remuneration of non-executive or supervisory directors should not include share options.		
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.		
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.		
8.19. Schemes anticipating remuneration of directors in shares, share options or any other 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.	Not applicable	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.
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	Not applicable	

compensations listed in this article to individual directors.	Not applicable	The company does not follow the recommendations set in clause 8.19.
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.		
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.		
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 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.		
<b>Principle IX: The role of stakeholders in corporate governance</b>		
<b>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.</b>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The company has established conditions under which each stakeholder may participate in the management of the company and they have access to relevant information.
9.2. The corporate governance framework	Yes	Stakeholders, who own the shares of the company, have a



<p>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>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><b>Principle X: Information disclosure and transparency</b></p>		
<p><b>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.</b></p>		
<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1. The financial and operating results of the company;</li> <li>2. Company objectives;</li> <li>3. Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5. Material foreseeable risk factors;</li> <li>6. Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7. Material issues regarding employees and other stakeholders;</li> <li>8. Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of</p>	<p>Yes, except for items 4 and 6</p> <p>Yes</p> <p>Not applicable</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 management bodies of the company, as well as the information regarding their participation in the activity of other companies and company's shares that are held by them, is publicly disclosed in the periodical reports and on the website of the company.</p> <p>When disclosing the information set in item 1 of Recommendation 10.1, a company, which is the parent of other companies, discloses the information regarding the consolidated results of the whole group to which the company belongs.</p>

<p>the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	Yes	<p>The company presents the information via the information disclosure system applied by Vilnius Stock Exchange simultaneously in Lithuanian and English languages insofar as it is possible so that the Stock Exchange would announce the received information on its website and in the trading system, thus ensuring the simultaneous access to information for everybody. The company endeavors to announce the information before or after a trading session on Vilnius Stock Exchange and to present the information to all stock exchanges on which the securities of the company are traded. The company keeps the confidentiality with regard to information that may have 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.</p>
<p>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.</p>	Yes	<p>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.</p>
<p>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.</p>	Yes	<p>The company follows this recommendation and places all the essential information on the company's website.</p>
<p><b>Principle XI: The selection of the company's auditor</b></p>		
<p><b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		

<p>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.</p>	<p>Yes</p>	<p>The company follows this recommendation as the audit of company's annual financial statement is conducted by an independent firm of auditors.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Not applicable</p>	<p>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.</p>