

**AB Pieno Žvaigždės**

Financial statements for the  
year ended 31 December 2011

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## **Company details**

### **AB Pieno Žvaigždės**

Telephone: +370 5 246 1414  
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Company code: 124665536  
Registered at: Perkūnkiemio g. 3, Vilnius, Lithuania

### **Board**

Paul Bergqvist, Chairman  
Lars Ojefors  
Voldemaras Klovas  
Julius Kvaraciejus  
Aleksandr Smagin  
Gżegoż Ragoża

### **Management**

Aleksandr Smagin, General Director

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas  
Swedbank, AB  
AB DnB Nord Bankas

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

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

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

We recommend the financial statements to be approved at the General Shareholders' Meeting.

Vilnius, 21 March 2012

**Management:**



-----  
Aleksandr Smagin  
General Director



**KPMG Baltics, UAB**  
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## **Independent auditor's report to the shareholders of AB Pieno Žvaigždės**

### **Report on the financial statements**

We have audited the accompanying financial statements of AB Pieno Žvaigždės ("the Company"), which comprise the statement of financial position as at 31 December 2011, the 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 5-41.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

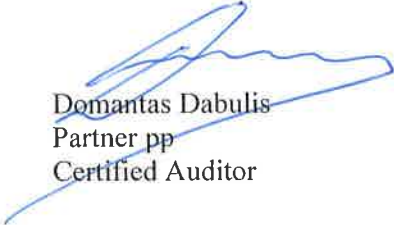
*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and of its financial performance and its 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 for the year ended 31 December 2011, set out on pages 43-54 of the financial statements, and have not identified any material inconsistencies between the financial information included in the Annual Report and the financial statements for the year ended 31 December 2011.

On behalf of KPMG Baltics, UAB



Domantas Dabulis  
Partner pp  
Certified Auditor



Mindaugas Bartkus  
Certified Auditor

Vilnius, Republic of Lithuania  
21 March 2012

## Statement of comprehensive income for the year ended 31 December

Thousand Litas	Note	2011	2010
Revenue	1	700,924	620,255
Cost of sales		(568,679)	(500,740)
<b>Gross profit</b>		<b>132,245</b>	<b>119,515</b>
Other operating income	2	1,688	1,411
Other operating expenses	2	(911)	(955)
Sales and administrative expenses	3	(98,849)	(95,063)
<b>Operating profit</b>		<b>34,173</b>	<b>24,908</b>
Finance income	4	368	215
Finance expenses	5	(4,545)	(3,310)
<b>Finance expenses, net</b>		<b>(4,177)</b>	<b>(3,095)</b>
<b>Profit before tax</b>		<b>29,996</b>	<b>21,813</b>
Income tax expense	6	(4,311)	(3,243)
<b>Profit (loss) for the year</b>		<b>25,685</b>	<b>18,570</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>25,685</b>	<b>18,570</b>
Basic earnings per share (Litas)	7	0.51	0.34
Diluted earnings per share (Litas)	7	0.51	0.34

The notes, set out on pages 9 to 41, are an integral part of these financial statements.

## Statement of financial position at 31 December

Thousand Litas	Note	2011	2010
<b>Assets</b>			
Property, plant and equipment	8	181,166	191,763
Intangible assets	9	899	1,198
Investments available for sale	10	276	276
Long-term receivables	12	126	1,107
<b>Total non-current assets</b>		<b>182,467</b>	<b>194,344</b>
Inventories	11	75,725	60,322
Receivables	12	73,238	67,587
Cash and cash equivalents	13	1,973	3,582
<b>Total current assets</b>		<b>150,936</b>	<b>131,491</b>
<b>Total assets</b>		<b>333,403</b>	<b>325,835</b>
<b>Equity</b>			
Share capital		54,205	54,205
Share premium		27,246	27,246
Treasury shares		(14,435)	(14,349)
Reserves		36,819	36,883
Retained earnings		43,997	43,058
<b>Total equity</b>	14	<b>147,832</b>	<b>147,043</b>
<b>Liabilities</b>			
Government grants	15	4,422	4,859
Interest-bearing loans and borrowings	16	92,078	41,611
Deferred tax	17	1,478	2,010
<b>Total non-current liabilities</b>		<b>97,978</b>	<b>48,480</b>
Provisions	19	-	-
Interest-bearing loans and borrowings	16	28,578	71,590
Income tax payable		1,402	2,369
Trade and other amounts payable	18	57,613	56,353
<b>Total current liabilities</b>		<b>87,593</b>	<b>130,312</b>
<b>Total liabilities</b>		<b>185,571</b>	<b>178,792</b>
<b>Total equity and liabilities</b>		<b>333,403</b>	<b>325,835</b>

The notes, set out on pages 9 to 41, are an integral part of these financial statements.



## Statement of changes in equity

Thousand Litas	Note	Share capital	Share premium	Treasury shares	Legal reserve	Revaluation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2010		54,205	27,246	(6,108)	5,420	15,423	6,250	46,376	148,812
<b>Comprehensive income for the period</b>									
Net profit for the year								18,570	18,570
<b>Other comprehensive income</b>									
Depreciation on revalued buildings						(330)		330	
<b>Total comprehensive income for the period</b>						<b>(330)</b>		<b>18,900</b>	<b>18,570</b>
<b>Transactions with owners recognised in equity</b>									
Allocated to reserves							10,120	(10,120)	
Dividends								(12,098)	(12,098)
Acquisition of treasury shares				(8,241)					(8,241)
<b>Total transactions with owners</b>				<b>(8,241)</b>			<b>10,120</b>	<b>(22,218)</b>	<b>(20,339)</b>
At 31 December 2010	14	<b>54,205</b>	<b>27,246</b>	<b>(14,349)</b>	<b>5,420</b>	<b>15,093</b>	<b>16,370</b>	<b>43,058</b>	<b>147,043</b>
As at 1 January 2011		54,205	27,246	(14,349)	5,420	15,093	16,370	43,058	147,043
<b>Comprehensive income for the period</b>									
Net profit for the year								25,685	25,685
<b>Other comprehensive income</b>									
Depreciation on revaluation increase of buildings						(1,114)		1,114	-
<b>Total comprehensive income for the period</b>						<b>(1,114)</b>		<b>26,799</b>	<b>25,685</b>
<b>Transactions with owners recognised in equity</b>									
Transfer to reserves							1,050	(1,050)	-
Dividends								(24,810)	(24,810)
Acquisition of treasury shares				(86)					(86)
<b>Total transactions with owners</b>				<b>(86)</b>			<b>1,050</b>	<b>(25,860)</b>	<b>(24,896)</b>
At 31 December 2011	14	<b>54,205</b>	<b>27,246</b>	<b>(14,435)</b>	<b>5,420</b>	<b>13,979</b>	<b>17,420</b>	<b>43,997</b>	<b>147,832</b>

The notes, set out on pages 9 to 41, are an integral part of these financial statements.

## Statement of cash flows

**For the year ended 31 December**

Thousand Lit	Note	2011	2010
<b>Cash flows from operating activities</b>			
Profit (loss) for the year		25,685	18,570
Adjustments for:			
Depreciation and amortisation	8, 9	33,413	39,798
Amortisation of government grants	15	(1,069)	(695)
Gain/Loss on disposal and write-off of property, plant and equipment		341	139
Impairment loss of receivables	3	243	1,985
Change in vacation reserve	18	412	165
Write-down of inventories to net realisable value		-	-
Interest income/expenses, net	4,5	4,012	3,054
Income tax expense	6	4,311	3,243
		<b>67,348</b>	<b>66,259</b>
Change in inventories		(15,403)	(21,083)
Change in receivables		(5,687)	(1,248)
Change in payables		(1,586)	7,204
<b>Cash flows from operating activities</b>		<b>44,672</b>	<b>51,132</b>
Interest paid		(4,012)	(2,991)
Income tax paid		(2,644)	(4,500)
<b>Net cash flow from operating activities</b>		<b>38,016</b>	<b>43,641</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	8	(23,213)	(12,776)
Acquisition of intangible assets	9	(66)	(652)
Proceeds on sale of property, plant and equipment		600	418
<b>Net cash flow used in investing activities</b>		<b>(22,679)</b>	<b>(13,010)</b>
<b>Cash flows from financing activities</b>			
Loans received		110,680	44,140
Repayment of borrowings		(83,148)	(43,301)
Acquisition of treasury shares		(86)	(8,241)
Dividends paid		(24,947)	(12,098)
Payment of finance lease liabilities		(20,077)	(15,845)
Government grants received	15	632	2,160
<b>Net cash flow from financing activities</b>		<b>(16,946)</b>	<b>(33,185)</b>
Change in cash and cash equivalents		(1,609)	(2,554)
Cash and cash equivalents at 1 January		3,582	6,136
<b>Cash and cash equivalents at 31 December</b>		<b>1,973</b>	<b>3,582</b>

The notes, set out on pages 9 to 41, are an integral part of these financial statements.

## **Notes to the financial statements**

### **Background information**

The head office of AB Pieno Žvaigždės (“the Company”) is located in Vilnius, Lithuania. AB Pieno Žvaigždės was established in 1998 by way of a merger of stock companies Mažeikių Pieninė, Pasvalio Sūrinė and Kauno Pienas.

As at 31 December 2003 the Company owned 64.2% shares of the subsidiary AB Panevėžio Pienas. During the year 2004 the Company acquired the remaining shares of AB Panevėžio Pienas. As of 30 November 2004 AB Panevėžio Pienas was merged to AB Pieno Žvaigždės and acquired the status of a branch.

The main office of the Company is located in Vilnius and the branches are in Mažeikiai, Pasvalys, Kaunas and Panevėžys.

All ordinary shares of the Company are quoted in the Vilnius Stock Exchange. There is no controlling entity or individual.

The Company is engaged in production and sales of dairy products to retail stores directly and through distributors.

The average number of employees in 2011 was 1,937 (2010: 2,019 employees).

### **Significant accounting policies**

#### ***Statement of compliance***

The financial statements of AB Pieno Žvaigždės have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Board of the Company approved these financial statements for issue to the shareholders on 21 March 2012. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

#### ***Basis of preparation***

The financial statements are presented in Litas being the functional currency of the Company, and are prepared on the historical cost basis, except for land and buildings which are stated at revalued amount.

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.

## **Notes to the financial statements**

### **Significant accounting policies**

#### **(continued)**

#### ***Basis of preparation (continued)***

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

Judgements and estimates made by management in the application of IFRSs adopted in the EU that have significant effect on the financial statements are discussed on page 21.

#### ***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 the statement of comprehensive income when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit and loss.

#### ***Foreign currency***

Transactions in foreign currencies are translated to Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the fair value was determined.

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

##### ***Owned assets***

Property, plant and equipment (except for land and buildings) are stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at a revalued amount less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Borrowing costs that are directly attributable to the acquisition, construction or production of an item of property, plant and equipment where substantial period of time is necessary to get ready the asset for its intended use, are capitalized as part of cost of the asset.

## Notes to the financial statements

### Significant accounting policies (continued)

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

The revaluation reserve is reduced annually in proportion to the depreciation of the revaluation increase, by a transfer from revaluation reserve to retained earnings as the asset is depreciated with the balance being transferred upon ultimate disposal.

Cost of self-constructed property, plant and equipment includes costs related to materials and direct labour costs as well as related indirect costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their expected useful lifetime.

Useful lives, residual amounts and depreciation methods are reviewed at each reporting date.

#### *Leased assets*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets used by way of finance lease are recognised as assets of the company and are stated at the lower of their fair value in the beginning of the lease and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### *Subsequent expenditure*

Costs incurred when replacing a component part of an item of property, plant and equipment are capitalised only upon write-off of the carrying amount of the component and if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the component part can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

#### *Depreciation*

Depreciation (except for land which is not depreciated) is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buildings 20 - 40 years
- machinery and equipment 10 - 12 years
- other property, plant and equipment 4 - 20 years

#### *Intangible assets*

Intangible assets acquired by the Company with a definite useful life are stated at cost less accumulated amortisation and impairment losses.

Costs related to internally generated goodwill and trademarks are recognised in profit or loss as costs when incurred.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Intangible assets (continued)***

##### *Subsequent expenditure*

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

##### *Amortisation*

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are 1 to 3 years.

##### *Goodwill*

Goodwill is represented by the fair value of consideration transferred including the recognized amount of any non controlling interest in the acquiree, less the net recognized amount (usually fair value) of identifiable net assets acquired and liabilities assumed, all measured at acquisition date. Goodwill is included in intangible assets.

Goodwill relates to the acquired and subsequently merged company AB Panevėžio Pienas.

#### ***Financial instruments***

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

##### *Investments in equity securities*

Investments in equity securities are classified as available-for-sale and at initial recognition are stated at fair value plus the related direct costs. Subsequently the investments are revalued to fair value carrying the gain or loss on their revaluation through other comprehensive income to equity. Impairment losses, if any, are included in profit or loss if the fair value decline is considered to be prolonged or significant. When the investments are sold, the accrued gain or loss previously recognised under equity, is recognised in the statement of comprehensive income. If the fair value cannot be determined reliably, the investments in equity securities are stated at cost less impairment losses.

The fair value of financial instruments available for sale is their quoted price at the reporting date.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Financial instruments (continued)***

Financial instruments classified as available for sale are recognised / derecognised by the Company on the date it commits to purchase / sell the instruments.

#### ***Other financial instruments***

Trade receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months and are classified as loans and receivables. Trade receivables and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method, less impairment, if any. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to carrying amount of the financial asset and liability. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

#### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### ***Cash and cash equivalents***

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

#### ***Impairment***

The carrying amounts of the Company's assets, other than inventories and deferred tax asset, are reviewed at each reporting date in order to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

## **Notes to the financial statements**

### **Significant accounting policies**

#### **(continued)**

#### *Impairment (continued)*

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised through other comprehensive income to equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### *Calculation of recoverable amount*

The recoverable amount of the Company's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets).

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.

#### *Reversals of impairment*

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

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of comprehensive income.

Impairment of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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



## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

#### ***Dividends***

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

Withholding taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### ***Provisions***

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognised. When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financial expenses.

#### ***Employee benefits***

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

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is firmly committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Revenue***

##### *Goods sold and services rendered*

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods exists or where substantial risks and rewards cannot be considered as transferred to the buyer.

##### *Government grants*

A government grant is recognised in the statement of financial position when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Government grants intended to compensate the Company for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grants that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income as other operating income on a systematic basis over the useful life of the asset.

#### ***Expenses***

##### *Operating lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *Other operating income and charges*

Other operating income and charges comprise gains and losses from sale of property, plant and equipment, and other items, which are not directly related to the primary activities of the Company.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Expenses (continued)***

##### *Finance costs and income*

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses. The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

Finance income comprise interest receivable on funds invested, dividend income and foreign exchange gains. Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit or loss on the date the entity's right to receive payments is established.

##### ***Income tax***

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

##### ***Basic and diluted earnings per share***

Basic earnings per share is calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares. In cases when the number of shares does not change and this happens without a corresponding change in economic resources, the weighted average of issued ordinary shares is adjusted for the proportionate change in the number of shares as if the event had occurred in the beginning of the earliest period presented. As there are no instruments that dilute equity, the basic and diluted earnings per share do not differ.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### ***Operating segments***

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### ***Financial risk management***

In its activities the Company is exposed to various financial risks: market risk (including foreign exchange risk, interest rate risk), credit risk and liquidity risk. General risk management policy establishment and supervision is the responsibility of the Board of directors. Risk management policy was set up in order to identify and analyse risks facing the Company, and determine risk acceptance limits. Risk management policy and processes are reviewed regularly considering changes in the markets and activities of the Company. The Company, applying learning and management standards and procedures, aims to establish constructive control environment where all employees clearly realise their functions and responsibilities. The Company's management pays the greatest attention to unpredictability of financial markets and aims to decrease its eventual impact on the Company's financial performance. From time to time the Company can use a derivative financial instrument in order to hedge certain risks.

##### ***a) 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 Company'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 optimising the return.

##### ***b) Currency exchange risk***

Currency risk relates to sales and receivables, purchases and payables, borrowings and borrowing costs denominated in currencies other than Litas and Euro (Litas is pegged to Euro at a fixed exchange rate of 3,4528 LTL / EUR). There are no other material monetary items denominated in currencies other than Litas and Euro. Sensitivity analysis is presented in note 20.

##### ***c) Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company has established procedures ensuring that sales are made to customers having a proper credit history without exceeding the limit of credit risk set by management. The company has a significant concentration of credit risk on the basis of individual of customers, which is disclosed in note 20. The carrying amount of financial assets represents the maximum credit exposure, refer to note 20.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

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

##### ***d) Liquidity risk***

A conservative management of liquidity risk enables the company to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities. Liquidity risk analysis is presented in the note 20.

##### ***e) Interest rate risk***

The Company's borrowings are subject to variable interest rates, related to LIBOR, VILIBOR or EURIBOR. The cash flow sensitivity analysis is presented in the note 20.

#### ***Capital management***

The Board's policy is to keep the shareholders' equity over borrowings at the level to maintain the confidence of investors, creditors and the market and to fund business development opportunities in the future. The Board keeps track on the ratios of capital return and makes suggestions regarding proposed dividends.

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 Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

According to the Companies Law of the Republic of Lithuania, the Company's equity shall be not less than 50% of its share capital.

#### **Standards, interpretations and amendments to published standards that are not yet effective**

The accounting policies applied by the Company to all financial information reported in these financial statements are consistent with the accounting policies of the previous year. New IFRS and their interpretations which became effective in 2011 are not relevant to the Company's activity.

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

New and revised International Financial Reporting Standards and interpretations have been issued, which will be effective for financial reporting periods starting from 1 January 2012 or later. The Company has decided not to early adopt the new standards and interpretations. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Company's management, are stated below.

## **Notes to the financial statements**

### **Significant accounting policies (continued)**

#### **Standards, interpretations and amendments to published standards that are not yet effective (continued)**

##### *Amendments to IFRS 7 Disclosures - Transfers of Financial Assets*

Are 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 Amendments define "continuing involvement" for the purposes of applying the disclosure requirements. The Company does not expect amendments to IFRS 7 to have a material impact on the financial statements because of the nature of the Company's operations and types of financial assets that it holds.

#### ***Critical accounting estimates and judgments***

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.

##### *Significant accounting estimates and assumptions*

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

##### *Impairment of property, plant and equipment*

The carrying amounts of property, plant and equipment are reviewed at each reporting date in order to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. With a purpose of impairment testing, the assets which, in the process of continuous use, generate cash and mainly are independent of generating cash inflows of other assets or asset groups (cash generating units) are classified to the smallest group. The recoverable amount of property, plant and equipment 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.

## **Notes to the financial statements**

### **Significant accounting policies**

#### **(continued)**

#### *Critical accounting estimates and judgments (continued)*

##### *Fair value of land and buildings*

The fair values of land and buildings are assessed at each reporting date in order to determine whether there are any significant differences between fair values and carrying amounts in the financial statements. Fair values are assessed by reference to valuation reports or market assumptions reports received from external valuers.

##### *Impairment of receivables*

The Company reviews its receivables individually to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual debtor, e.g. adverse change in the payment status of the debtor, etc.

##### *Useful lives of intangible assets and property, plant and equipment*

Useful lives of the assets are reviewed at least annually. They are adjusted, if necessary, considering technological changes, expected future use of the asset and its present condition.

##### *Judgments*

The Company recognises deferred tax assets based on the judgement of management that realisation of the related tax benefits through future taxable profits is probable. Management's judgements are based on internal budgets and forecasts.

## Notes to the financial statements

### 1. Operating segments

The only operating segment of the Company is production of dairy products.

Geographical information may be presented as follows (revenue is based on the geographical location of customers. Assets are based on the geographical location of the assets):

<b>Year 2011, thousand Lit</b>	Lithuania	Other EU countries	Non EU countries	Total
Revenue	327,354	99,153	274,417	700,924
Property, plant and equipment	178,134	3,032	-	181,166
Other non-current assets	1,301	-	-	1,301

The Company has two customers from which revenue in 2011 accounted for more than 10% of the total revenue for the year. Revenue earned from these customers amounted to 16% and 14% of the total revenue.

<b>Year 2010, thousand Lit</b>	Lithuania	Other EU countries	Non EU countries	Total
Revenue	301,183	74,434	244,638	620,255
Property, plant and equipment	187,584	4,179	-	191,763
Other non-current assets	2,581	-	-	2,581

The Company has one customer from which revenue in 2010 accounted for more than 10% of the total revenue for the year. Revenue earned from this customer amounted to 17% of the total revenue.

### 2. Other operating items

Other operating income:  
Thousand Lit

	<b>2011</b>	<b>2010</b>
Income from rent and other services	1,130	1,340
Net gain on disposal of property, plant and equipment	494	-
Other	64	71
	<b>1,688</b>	<b>1,411</b>

Other operating expenses:  
Thousand Lit

Rent and other services related expenses  
Net loss on disposal of property, plant and equipment

	<b>2011</b>	<b>2010</b>
Rent and other services related expenses	<b>(911)</b>	<b>(826)</b>
Net loss on disposal of property, plant and equipment	-	<b>(129)</b>
	<b>(911)</b>	<b>(955)</b>



## Notes to the financial statements

### 3. Sales and administrative costs

Thousand Lit	2011	2010
Staff costs	(34,584)	(34,982)
Depreciation and amortisation	(10,279)	(11,858)
Marketing and advertising	(9,679)	(6,493)
Fuel	(7,424)	(5,975)
Production delivery costs	(5,798)	(6 564)
Materials and spare parts	(4,173)	(3,477)
Utilities	(3,110)	(3,008)
Repair	(2,334)	(1,718)
Taxes, except income tax	(2,186)	(2,212)
Security costs	(1,787)	(1 791)
Operating lease	(1,225)	(1,112)
Insurance	(1,088)	(1,155)
Communications	(597)	(884)
Payments to board members	(420)	(330)
Transport	(253)	(259)
Impairment of receivables	(238)	(1,985)
Office consumables	(64)	(127)
Other	(13,610)	(11 133)
	<b>(98,849)</b>	<b>(95,063)</b>
Sales costs	(58,306)	(53,840)
Administrative costs	(40,543)	(41,223)
	<b>(98,849)</b>	<b>(95,063)</b>

### 4. Finance income

Thousand Lit	2011	2010
Fines and delay	308	-
Interest	60	215
Total finance income	<b>368</b>	<b>215</b>

### 5. Finance expenses

Thousand Lit	2011	2010
Interest on loans and leasing liabilities	(4,012)	(3,054)
Loss on foreign currency exchange	(54)	(100)
Other	(479)	(156)
Total finance expenses	<b>(4,545)</b>	<b>(3,310)</b>

## Notes to the financial statements

### 6. Corporate income tax

Thousand Litas	<b>2011</b>	<b>2010</b>
Income tax for the current year	(4,843)	(3,868)
Adjustments of the income tax for prior years	-	475
Change in deferred tax	532	150
Total income tax expenses	<b>(4,311)</b>	<b>(3,243)</b>

#### *Reconciliation of effective tax rate*

Thousand Litas	2011		2010	
Profit before tax		29,996		21,813
Income tax using the prevailing tax rate	15%	(4,499)	15%	(3,272)
Non-deductible expenses	3,1%	(943)	3,9%	(852)
	-	-	-	-
Effect of charity (deducted twice)	(2%)	599	(1,2%)	256
Change in tax rate	-	-	-	-
	<u>16,1%</u>	<u>(4,843)</u>	<u>17,7%</u>	<u>(3,868)</u>

### 7. Earnings per share ratio

Basic earnings per share ratio is calculated dividing the net profit for the year by the average number of ordinary shares outstanding during the year. There are no dilutive potential ordinary shares.

	<b>2011</b>	<b>2010</b>
Number of shares in issue calculated using weighted average method, thousand units	50,643	51,624
Net result for the year, in thousand Litas	25,685	18,570
Basic earnings per share, in Litas	<u>0.51</u>	<u>0.36</u>
Diluted earnings per share, in Litas	<u>0.51</u>	<u>0.36</u>

## Notes to the financial statements

### 8. Property, plant and equipment

Thousand Lit	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
<b>Cost/revaluation</b>					
Balance at 1 January 2010	96,095	247,601	73,955	4,363	422,014
	-	-	-	-	-
Acquisitions	19	6,377	993	2,408	9,797
Prepayments	-	-	3,634	-	3,634
Disposals and write-offs	-	(4,093)	(3,762)	-	(7,855)
Re-classification	3,445	480	-	(3,925)	0
<b>Balance at 31 December 2010</b>	<b>99,559</b>	<b>250,365</b>	<b>74,820</b>	<b>2,846</b>	<b>427,590</b>
Balance at 1 January 2011	99,559	250,365	74,820	2,846	427,590
	-	-	-	-	-
Acquisitions	314	15,680	2,314	5,085	23,393
	-	-	-	-	-
Disposals and write-offs	(531)	(7,246)	(3,693)	-	(11,470)
Re-classification	3,841	1,888	236	(5,965)	0
<b>Balance at 31 December 2011</b>	<b>103,183</b>	<b>260,687</b>	<b>73,677</b>	<b>1,966</b>	<b>439,513</b>
<b>Depreciation</b>					
Balance at 1 January 2010	9,091	155,146	38,974	0	203,211
Depreciation for the year	5,101	25,738	8,610	-	39,449
Depreciation of disposals	-	(3,608)	(3,689)	-	(7,297)
	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>14,192</b>	<b>177,276</b>	<b>43,895</b>	<b>0</b>	<b>235,363</b>
Balance at 1 January 2011	14,192	177,276	43,895	0	235,363
Depreciation for the year	4,907	20,703	7,439	-	33,049
Depreciation of disposals	(214)	(7,098)	(3,217)	-	(10,529)
Re-classifications	-	-	-	-	-
<b>Balance at 31 December 2011</b>	<b>18,885</b>	<b>190,881</b>	<b>48,117</b>	<b>0</b>	<b>257,883</b>
<b>Impairment</b>					
Balance as at 1 January 2010	0	0	0	464	464
Re-classification	464	-	-	(464)	0
<b>Balance as at 31 December 2010</b>	<b>464</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>464</b>
Balance as at 1 January 2011	464	0	0	0	464
	-	-	-	-	0
	-	-	-	-	-
	-	-	-	-	-
<b>Balance as at 31 December 2011</b>	<b>464</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>464</b>
<b>Carrying amounts</b>					
1 January 2010	87,004	92,455	34,979	3,899	218,337
31 December 2010	84,903	73,089	30,925	2,846	191,763
<b>1 January 2011</b>	<b>84,903</b>	<b>73,089</b>	<b>30,925</b>	<b>2,846</b>	<b>191,763</b>
<b>31 December 2011</b>	<b>83,834</b>	<b>69,806</b>	<b>25,560</b>	<b>1,966</b>	<b>181,166</b>

## **Notes to the financial statements**

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

#### ***Impairment***

In 2010 an impairment loss on construction in progress was reclassified due to reclassification of the related assets to the buildings group.

In opinion of the management, there is no indication of impairment of property, plant and equipment as current and expected cash flows from operating activities are sufficient in order to recover the carrying amount of assets as at 31 December 2011.

#### ***Revaluation of buildings***

The Company carried out the revaluation of buildings as at 31 December 2004. An increase in the value of the buildings amounting to 4,796 tLTL was recorded in a revaluation reserve within equity as at 31 December 2004 net of deferred tax of 730 tLTL. A decrease in the value of buildings amounting to 8,050 tLTL was recorded in profit or loss in year 2004.

As at 31 December 2007 the Company performed another revaluation of its buildings. An increase in the value of 18,381 tLTL (net of deferred tax liability of 2,755 tLTL) was recognised in equity under the revaluation reserve. An increase in value of the buildings amounting to 1,721 tLTL was recognised in profit or loss for 2007 as reduction of costs because prior to 1 January 2007 an impairment loss was recognised for the mentioned assets. The impairment loss of the assets amounted to 1,007 tLTL and was recognized as expenses in profit or loss for 2007. The revaluation was performed based on the fair values determined by external valuers applying the comparative transactions method.

At the end of 2011 the Company evaluated whether fair value of land and buildings is significantly different from the carrying amount in the financial statements at that date. Based on market assessment report received from independent valuers, which states that in 2011 there were no significant changes in real estate prices. The real estate market assumptions report is based on historical sales and purchases of real estate transactions during the years 2010 and 2011. In opinion of the management, as at 31 December 2011 there was no significant difference between fair value and carrying amount of land and buildings at that date. Therefore, no revaluation was recognised in the financial statements as at 31 December 2011.

Should the Company have continued to account for the land and buildings using the acquisition cost method, the carrying amount of the land and buildings as at 31 December 2011 would amount to 73,535 tLTL (2010: 71,211 tLTL).

#### ***Pledges***

Property, plant and equipment with a carrying amount of 49,846 tLTL as at 31 December 2011 (2010: 77,495 tLTL), are pledged to secure the bank loans (note 16).

#### ***Leased assets***

The Company has acquired machinery and equipment, transport vehicles and other assets by way of finance lease. During the year 2011 the Company has repaid all the leasing liabilities.

## Notes to the financial statements

### 8. Property, plant and equipment (continued)

#### *Depreciation*

Depreciation is included in the following items of profit or loss:

Thousand Lit	2011	2010
Cost of sales	20,800	27,063
Sales and administrative expenses	10,279	11,678
	<b>31,079</b>	<b>38,741</b>

The remaining depreciation amounting to 2,334 tLTL (2010: 2,327 tLTL) is included in the carrying amount of inventories as at 31 December 2011.

Acquisition cost of fully depreciated property, plant and equipment in use amounts to 136,525 tLTL as at 31 December 2011 (2010: 117,065 tLTL).

### 9. Intangible assets

Thousand Lit	Goodwill	Software, etc	Total
<b>Cost</b>			
Balance at 1 January 2010	335	5,477	5,812
Acquisitions		652	652
Write-offs		-	-
Balance at 31 December 2010	<b>335</b>	<b>6,129</b>	<b>6,464</b>
Balance at 1 January 2011	335	6,129	6,464
Acquisitions		66	66
Write-offs		(1,145)	(1,145)
Balance at 31 December 2011	<b>335</b>	<b>5,050</b>	<b>5,385</b>
<b>Depreciation and impairment</b>			
Balance at 1 January 2010	-	4,917	4,917
Amortisation for the year		349	349
Amortisation of written-off assets			
Balance at 31 December 2010	<b>-</b>	<b>5,266</b>	<b>5,266</b>
Balance at 1 January 2011	-	5,266	5,266
Amortisation for the year	-	340	340
Impairment for the year	24	-	24
Amortisation of written-off assets	-	(1,144)	(1,144)
Balance at 31 December 2011	<b>24</b>	<b>4,462</b>	<b>4,486</b>
<b>Carrying amounts</b>			
1 January 2010	335	560	895
31 December 2010	<b>335</b>	<b>863</b>	<b>1,198</b>
1 January 2011	335	863	1,198
31 December 2011	<b>311</b>	<b>588</b>	<b>899</b>

## Notes to the financial statements

### 9. Intangible assets (continued)

Amortisation is included in sales and administrative expenses.

Goodwill amounting to 311 tLTL as at 31 December 2011 arose from the acquisition of AB Panevėžio Pienas. In 2004 AB Panevėžio Pienas was merged to AB Pieno Žvaigždės. The management is of the opinion that there is no significant impairment of goodwill due to profitable operation of the branch Panevėžio Pienas.

Acquisition cost of fully amortised intangible assets in use amounts to 2,742 tLTL as at 31 December 2011 (2010: 3,743 tLTL).

### 10. Investments available for sale

Thousand Lit	2011	2010
Equity investments available for sale	276	276
	<b>276</b>	<b>276</b>

The major part of investments available for sale as at 31 December 2011 includes shares of UAB Kapitalo Srautai (representing 15.3% ownership interest). UAB Kapitalo Srautai is engaged in financial brokerage activities. Due to the fact that the fair value of the mentioned shares cannot be reliably determined, they are stated at acquisition cost, which amounts to 200 tLTL. The other available for sale investments are also stated at cost due to absence of reliable estimate of their fair value.

### 11. Inventories

Thousand Lit	2011	2010
Raw materials	18,114	17,140
Work in progress	46,693	32,201
Finished goods	10,663	10,826
Goods for re-sale	255	155
	<b>75,725</b>	<b>60,322</b>

Raw materials include milk and other materials used in production.

Inventories recognised as costs during the year can be specified as follows:

Cost of sales (manufactured goods sold)	(568,679)	(500,740)
Sales and administrative expenses (consumption of inventories)	(12,172)	(9,450)
Other activity expenses (sold raw materials, spare parts)	(38)	(256)
	<b>(580,889)</b>	<b>(510,446)</b>

Sales and administrative expenses include consumed fuel and spare parts.

Other operating costs include cost of re-sold goods and cost of sold raw materials and other inventories.

Inventories with the carrying amount of up to 75,725 tLTL as at 31 December 2011 (2010: 60,322 tLTL) have been pledged to secure bank loans (note 16).

### 12. Receivables

Thousand Lit	2011	2010
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## Notes to the financial statements

Trade receivables	69,213	62,098
Receivable government grants	-	-
Prepayments and loans	437	2,505
Other receivables and deferred expenses	2,405	1,377
Receivable VAT	1,183	1,850
Prepaid profit tax	-	-
	<b>73,238</b>	<b>67,830</b>
Impairment of receivables	-	(243)
	<b>73,238</b>	<b>67,587</b>

Impairment loss of receivables recognized in profit and loss for 2011 (refer to note 3) comprises written down doubtful trade receivables amounting to 238 tLTL identified during 2011.

Specification of prepayments and loans may be presented as follows:

Thousand Litas	2011	2010
Prepayments for delivery of raw milk	410	1,847
Loans to management and employees	-	1,017
Other prepayments	153	748
	<b>563</b>	<b>3,612</b>
Less: long-term part	(126)	(1,107)
	<b>437</b>	<b>2,505</b>

According to agreements with raw milk suppliers prepayments for milk are reduced during the period of up to 5 years as milk is delivered. Fixed rate interest is calculated on outstanding prepayment amount which varies from 5% to 8%.

The carrying amount of receivables approximates the fair value because of their predominantly short-term nature.

### 13. Cash and cash equivalents

Thousand Litas	2011	2010
Cash at bank	1,513	3,085
Cash in hand	460	497
	<b>1,973</b>	<b>3,582</b>

## **Notes to the financial statements**

### **14. Equity**

As at 31 December 2011 the authorised capital comprised 54,205,031 ordinary shares at par value of 1 Litas each. All shares are fully paid.

Holders of ordinary shares have one voting right per share at the shareholders meeting and the right to dividends when they are declared, as well as the right to capital repayment in case of a decrease in share capital. There is no controlling entity or individual.

#### ***Treasury shares***

The Company as at 31 December 2011 has repurchased 3,570,612 treasury shares (2010: 3,555,247 treasury shares).

When treasury shares are purchased, the amount paid, including direct costs, is accounted for as a reduction in equity. Any profit or loss from disposal of treasury shares is recognised in equity as an owner transaction.

#### ***Legal reserve***

Under Lithuanian legislation, an 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 losses.

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

As at 31 December 2004 the Company established a revaluation reserve of 4,066 tLTL, which is related to the revaluation of buildings as at 31 December 2004. The revaluation reserve is shown net of deferred tax liability amounting to 730 tLTL.

As at 31 December 2007 the Company recognised an additional 15,626 tLTL to the revaluation reserve, related to revaluation of buildings as at that date. The revaluation reserve was decreased by an amount of deferred tax of 2,755 tLTL.

The reserve is decreased in proportion to depreciation and disposal of the revaluation increase. The decrease in reserve is recognised through other comprehensive income as a separate component in equity.

When revalued buildings are depreciated a transfer from the revaluation reserve to retained earnings is made. The amount is determined as the difference between the depreciation based on the revalued carrying amount and the depreciation based on the original cost of the buildings.

#### ***Other reserves***

Other reserves amount to 17,420 tLTL as at 31 December 2011 (2010: 16,370 tLTL). Part of other reserves amounting to 16,000 tLTL (2010 : 16,000 tLTL), has been allocated to acquire treasury shares. Under Lithuanian legislation, this reserve will be retained until the Company purchases its treasury shares.

Dividends per share paid in 2011 were 0.49 LTL (2010: 0.23 LTL).



## Notes to the financial statements

### 15. Government grants

Thousand Lit	2011	2010
Government grants as at 1 January	17,055	14,895
Increase during the period	632	2,160
	-	-
<b>Government grants as at 31 December</b>	<b>17,687</b>	<b>17,055</b>
Amortisation as at 1 January	12,196	11,501
Amortisation for the year	1,069	695
	-	-
<b>Amortisation as at 31 December</b>	<b>13,265</b>	<b>12,196</b>
Net carrying amount at 1 January	4,859	3,394
<b>Net carrying amount at 31 December</b>	<b>4,422</b>	<b>4,859</b>

Amounts received in 2010 and 2011 from the structural funds' project Increase of Competitiveness of Milk Processing Activity were used to acquire special transport vehicles (milk-float) and equipment.

### 16. Interest bearing loans and borrowings

The Company's loans and borrowings are as follows (thousand Lit):

Creditor	Ref.	31-12-2011	31-12-2010
„Swedbank“, AB	a)	-	2,000
„Swedbank“, AB	b)	-	1,730
AB SEB bank	c)	523	4,099
AB SEB bank	d)	-	29,694
AB SEB bank	e)	-	4,842
AB DnB Nord bank	f)	-	26,408
AB DnB Nord bank	g)	4,055	8,849
AB DnB Nord bank	h)	-	5,605
Leasing companies	i)	-	20,077
Factoring companies	j)	10,578	9,897
AB SEB /AB DNB bank	k)	85,500	-
AB SEB /AB DNB bank	l)	20,000	-
<b>Total liabilities</b>		<b>120,656</b>	<b>113,201</b>
Less: current part		(28,578)	(71,590)
<b>Total non-current part</b>		<b>92,078</b>	<b>41,611</b>

a) The loan was received for acquisition of new milk processing equipment. The loan is repayable in equal parts on a quarterly basis and was fully repaid on 16 May 2011.

b) The loan (overdraft) was received for working capital needs. The overdraft matured on 16 July 2011.

c) The loan (overdraft) was received for working capital needs. The overdraft will be repaid by 21 July 2012.

d) The loan (credit line) received for working capital capital needs. The loan was fully repaid in 26 July 2011.

## Notes to the financial statements

### 16. Interest bearing loans and borrowings (continued)

e) The loan was received for acquisition of new transport vehicles. The loan was fully repaid in 26 July 2011. The loan is secured by pledging transport vehicles.

f) The loan was received for acquisition of new milk processing equipment. The loan was repaid in 26 July 2011.

g) The loan (overdraft) was received for working capital needs. The overdraft will be repaid in 30 March 2012. It is expected to prolong the repayment term for one year.

h) The loan was received for acquisition of new milk processing equipment. The loan was repaid in 26 July 2011.

i) Liabilities to leasing companies comprise amounts payable for transport vehicles and production equipment that were repaid in 26 July 2011.

j) Factoring services are provided by AB SEB Bankas. Maturity date is 21 March 2012.

k) The syndicated loan was received from AB DNB bank and AB SEB bank for financing of property, plant and equipment. The loan will be repaid in 21 July 2016.

l) The syndicated credit line was received from AB DNB bank and AB SEB bank for working capital needs. Maturity of the loan is 21 July 2013.

All the loans and other financial liabilities are denominated in EUR or LTL as at 31 December 2011. Loans and other financial liabilities denominated in EUR amount to 30,555 tEUR as at 31 December 2011 (2010: 25,668 tEUR).

All interest rates on loans, borrowings and finance leases are variable and consist of LIBOR, EURIBOR or VILIBOR plus a fixed margin. Interest is re-priced every 3 to 6 months depending on the loan/lease agreement and for this reason carrying amounts are assumed to approximate fair values of these loans/leases.

For the loans received the Company has pledged its property, plant and equipment with a carrying amount of 49,846 tLTL as at 31 December 2011 (2010: 77,495 tLTL), inventories with a carrying amount up to 75,725 tLTL (2010: 60,322 tLTL).

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

The contractual repayment of loans is as follows:

Thousand Lit	2011	2010
Within 1 year	28,578	60,462
From 1 to 5 years	92,078	32,662
Present value of liabilities	<b>120,656</b>	<b>93,124</b>

## Notes to the financial statements

### 16. Interest bearing loans and borrowings (continued)

#### *Finance lease liabilities*

Finance lease payments are as follows:

Thousand Litas	2011	2010
Within 1 year	-	11,537
From 1 to 5 years	-	9,326
	-	20,863
Future interest of finance lease	-	(786)
Present value of finance lease liabilities	-	<b>20,077</b>

The finance lease agreements have no contingent lease payments.

#### *Interest rates*

Effective interest rates of the loans and finance leases can be presented as follows:

%	2011	2010
Long-term loans	2.0 – 4.0	2.0 – 5.0
Short-term loans	2.0 – 3.0	2.0 – 5.5
Factoring	2.0 – 3.0	3.4 – 4.5
Finance lease	2.0 – 4.0	2.0 – 4.5

#### *Operating lease*

Operating lease expenses recognised in profit or loss are as follows:

Thousand Litas	2011	2010
Rent of milk collection premises	(73)	(75)
Operating lease of other assets	(1,621)	(1,526)
Total operating lease expenses	<b>(1,694)</b>	<b>(1,601)</b>

Expenses in respect to rent of milk collection premises are recognised under cost of sales. Operating lease of other assets is included in sales and administrative costs (1,225 thousand litas) and production costs (396 thousand litas).

Future minimum lease payments are as follows:

Thousand Litas	2012	2013	2014	2015	2016
Rent of milk collection premises	-	-	-	-	-
Operating lease of other assets	(2,179)	(2,056)	(1,866)	(235)	(21)
Total operating lease expenses	<b>(2,179)</b>	<b>(2,056)</b>	<b>(1,866)</b>	<b>(235)</b>	<b>(21)</b>

Agreements on the rent of milk collection premises do not prescribe any limitations in respect to termination of agreement. Therefore, the Company does not have any long-term liabilities as to these agreements.

## Notes to the financial statements

### 17. Deferred tax assets and liabilities

The deferred tax assets and liabilities calculated applying the 15% tax are attributed to the following items:

Thousand Lit	Assets		Liabilities		Net value	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	-	(755)	1,717	2,935	1,717	2,180
Inventories	-	-	-	-	-	-
Accrued costs	(239)	(170)	-	-	(239)	(170)
<b>Tax (asset) / liability</b>	<b>(239)</b>	<b>(925)</b>	<b>1,717</b>	<b>2,935</b>	<b>1,478</b>	<b>2,010</b>

Movements in temporary differences during the year can be presented as follows:

Thousand Lit	01-01-2011	Recognised in profit or loss	Recognised in equity	31-12-2011
Property, plant and equipment	2,180	(463)	-	1,717
Inventories	-	-	-	-
Accrued costs	(170)	(69)	-	(239)
<b>Tax (asset) / liability</b>	<b>2,010</b>	<b>(532)</b>	<b>-</b>	<b>1,478</b>

Thousand Lit	01-01-2010	Recognised in profit or loss	Recognised in equity	31-12-2010
Property, plant and equipment	2,320	(140)	-	2,180
Inventories	0	0	-	0
Accrued costs	(160)	(10)	-	(170)
<b>Tax (asset) / liability</b>	<b>2,160</b>	<b>(150)</b>	<b>-</b>	<b>2,010</b>

Difference between the tax basis and the carrying amount of property, plant and equipment in the financial statements has occurred mainly due to revaluation of buildings and impairment of property, plant and equipment.

#### *Unrecognised deferred tax assets*

Deferred tax assets have not been recognised and not included in the table above in respect of the following items:

Thousand Lit	2011	2010
Impairment of receivables	-	243
	<b>-</b>	<b>243</b>

Deferred tax assets have not been recognized in respect of these items because it is not probable that temporary differences will crystallize in the future.

## Notes to the financial statements

### 18. Trade and other payable amounts

Thousand Lit	2011	2010
Payable to suppliers	45,372	46,807
Vacation accrual	5,218	4,806
Taxes and social security contributions payable	2,483	2,349
Salaries payable	2,030	1,808
Other	2,510	583
	<b>57,613</b>	<b>56,353</b>

### 19. Provisions

As at 31 December 2011 and 31 December 2010 there are no provisions recognised in the financial statements.

### 20. Financial instruments

Credit, interest rate and foreign exchange risks arise in the course of the Company's activities carried out on normal business conditions.

#### *Credit risk*

The Company has established a credit policy and credit risk is being monitored on a continuous basis. The Company as at reporting date had two clients whose receivables accounted for 31% of the total receivables balance. Usual payment terms of trade receivables are 1 to 30 days. For one-off sales the Company requires a prepayment.

Allowance for receivables is determined based on estimated non-recoverable amounts. Allowance is determined individually for each client considering payments received after reporting period end and until date of financial statements preparation.

The carrying amount of financial assets shows the maximum credit risk, which was as follows at the date of the statement of financial position:

Thousand Lit	Carrying amount	
	2011	2010
Short-term receivable amounts	73,238	67,587
Long-term receivable amounts	126	1,107
Cash and cash equivalents	1,973	3,582
	<b>75,337</b>	<b>72,276</b>

## Notes to the financial statements

### 20. Financial instruments (continued)

#### *Credit risk (continued)*

The maximum credit risk related to amounts receivable at the reporting date could be distributed per geographic zones in the following way:

Thousand Lit	Carrying amount	
	2011	2010
Lithuania	34,449	33,360
European Union countries	8,545	6,654
Russia	31,046	26,272
Other countries	1,324	2,408
	<b>73,364</b>	<b>68,694</b>

#### *Impairment losses*

The ageing of receivables at the reporting date is specified as follows:

Thousand Lit	Gross amount	Impairment	Gross amount	Impairment
	2011	2011	2010	2010
Not past due	63,016		61,424	
Past due 0-30 days	7,584		6,761	
Past due 30-60 days	1,608		391	
Past due 61-90 days	986		33	
Past due more than 90 days	170	-	328	243
	<b>73,364</b>	<b>-</b>	<b>68,937</b>	<b>243</b>

Based on the Company's evaluation, no impairment allowance is necessary in respect of receivables past due up to 90 days.

#### *Foreign currency exchange risk*

The Company is exposed to foreign currency exchange risk, related to sales, purchases and borrowings denominated in other currencies than Lit or Euro (Lit has been pegged to the Euro at a fixed exchange rate of 3.4528 LTL / EUR and would only be expected to change as a result of government macro economic policy). The Company has no material sales and purchases in other currencies than LTL and EUR, therefore currency exchange risk is not significant. The Company does not use any financial instruments for hedging currency exchange risk.

## Notes to the financial statements

### 20. Financial instruments (continued)

#### *Foreign currency exchange risk (continued)*

As at 31 December 2011 there are no significant monetary assets and liabilities denominated in other currencies than LTL and EUR. Expression of monetary items in EUR is as follows:

Thousand EUR	2011	2010
Receivable amounts	12,010	10,512
Cash and cash equivalents	201	804
Interest-bearing loans and borrowings	(30,555)	(25,668)
Trade and other amounts payable	(965)	(1,480)
	<b>(19,309)</b>	<b>(15,832)</b>

#### *Liquidity risk*

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

#### **31 December 2011**

Thousand Litas	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>							
Loans and other financial liabilities	120,656	129,113	21,600	10,694	45,663	51,156	-
Trade and other payables	55,130	55,130	55,130	-	-	-	-
	<u>175,786</u>	<u>184,243</u>	<u>76,730</u>	<u>10,694</u>	<u>45,663</u>	<u>51,156</u>	<u>-</u>

#### **31 December 2010**

Thousand Litas	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>							
Loans and other financial liabilities	113,201	117,569	10,222	64,696	37,803	4,848	-
Trade and other payable amounts	54,004	54,004	54,004	-	-	-	-
	<u>167,205</u>	<u>171,573</u>	<u>64,226</u>	<u>64,696</u>	<u>37,803</u>	<u>4,848</u>	<u>-</u>

## Notes to the financial statements

### 20. Financial instruments (continued)

#### *Liquidity risk (continued)*

The effective interest rates applied for discounting of estimated cash flows were as follows:

	<b>2011</b>	<b>2009</b>
Loans and other financial liabilities	2% - 4%	2.0% - 5.5%

The Company's policy is to have sufficient liquidity to meet current operating settlements including repayment of borrowings. The bank is in the process of discussing the refinancing of its borrowing line in respect of loan repayments due in 2012.

#### *Interest rate risk*

The Company is subject to interest rate cash flow risk because interest-bearing loans are subject to variable interest, related to LIBOR, EURIBOR, VILIBOR.

Interest rates applied on the Company's financial instruments on the reporting date were as follows:

Thousand Lit

	<b>Carrying amount</b>	
	2011	2010
<b>Financial instruments bearing fixed interest rate</b>		
None	-	-
	-	-

Thousand Lit

	<b>Carrying amount</b>	
	2011	2010
<b>Financial instruments bearing varying interest rate</b>		
„Swedbank“, AB	-	2,000
„Swedbank“, AB	-	1,730
AB SEB bankas	523	4,099
AB SEB bankas	-	29,694
AB SEB bankas	-	4,842
AB DnB Nord bankas	-	26,408
AB DnB Nord bankas	4,055	8,849
AB DnB Nord bankas	-	5,605
Leasing companies	-	20,077
Factoring companies	10,578	9,897
AB SEB/AB NORD bankas	85,500	-
AB SEB/AB NORD bankas	20,000	-
	<b>120,656</b>	<b>113,201</b>

The interest rate is calculated as VILIBOR, EURIBOR or LIBOR for a certain period plus margin determined by creditor.



## Notes to the financial statements

### 20. Financial instruments (continued)

#### *Interest rate risk (continued)*

##### *Cash flow sensitivity analysis for variable interest rate instruments*

A change of 100 basis points in interest rates on the reporting date would have increased (decreased) profit or loss by amounts stated below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. An analysis for 2010 is made on the same basis.

Effect in Thousand Lit	Profit or loss for the year	
	Increase by 100 bp	Decrease by 100 bp
<b>As at 31 December 2011</b>		
Financial instruments on which variable interest rate was applied	(1,207)	1,207
<b>As at 31 December 2010</b>		
Financial instruments on which variable interest rate was applied	(1,132)	1,132

To hedge the risk of cash flow with variable interest rate in 2011 the Company has entered into an interest rate swap agreement with a bank, by which it partly hedges from significant interest rate fluctuations. The fair value of the interest rate swap agreement, amounting to 147 thousand Lit as at 31 December 2011, is presented under trade and other payables.

#### *Fair value of financial instruments*

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

### 21. Purchase commitments

As at 31 December 2011 the Company has no material purchase commitments. As at 31 December 2010 the Company had no purchase commitments as well.

## Notes to the financial statements

### 22. Related parties

Transactions with related parties can be specified as follows:

Thousand Lit	2011			2010		
	Sales	Purchases	Issued (repaid) loans	Sales	Purchases	Issued (repaid) loans
VŠĮ SSK (1)	1,027	-	-	-	10	-
UAB Žaibo Ratas Vilnius (2)	-	386	-	-	248	-
Board members (3)	-	252	-	-	224	-
	<b>1,027</b>	<b>638</b>	<b>-</b>	<b>-</b>	<b>482</b>	<b>-</b>

- (1) AB Pieno Žvaigždės is the sole participant of the basketball club VŠĮ SSK to which the Company's support is provided.
- (2) UAB Žaibo Ratas Vilnius is a related company through a General Director of AB Pieno Žvaigždės. UAB Žaibo Ratas Vilnius rents cars for the Company.
- (3) The Company purchases consultation services from the Board member.

Amounts payable to the related parties as at 31 December 2011 are as follows: UAB Žaibo Ratas Vilnius – 14.7 tLTL (2010: 7 tLTL), UAB Jansvis - 0 tLTL (2010: 5 tLTL).

Sales and purchases to/from related parties were carried out on normal market conditions.

Remuneration of key management personnel is included under the sales and administrative expenses category "Staff costs" (note 3):

Thousand Lit	2011	2010
Remuneration costs of key management personnel	1,690	1,248
Amounts paid to key management personnel, net of tax	1,220	724
Payments to the board	420	330

Remuneration costs of key management personnel comprise calculated salaries and social insurance contributions payable by the Company.

The key management personnel comprise general director, deputy general director, executive director, export director and finance director. All of the mentioned persons, except for finance director, are also Board members. The remuneration costs of key management personnel in year 2011 increased significantly comparing to the year 2010 because of increase in remuneration to the export director: 386 thousand litas in 2011 and 61 thousand litas in year 2010.

## **Notes to the financial statements**

### **23. Subsequent events**

On 6 January 2012 the Company purchased 1,000,000 equity shares after which the total purchased equity shares amount to 4,570,612 or 8,43% of the authorised capital. The nominal value of the equity shares, held by the Company, amounts to 4,570,612 LTL.

### **24. Contingent liabilities**

The Company has received a claim amounting to approximately 400 tEUR for a supposed noncompliance with an agreement. At present, the claim is being investigated at the court and an outcome of the case is not clear. No provision for the mentioned claim has been recognised in the financial statements as at 31 December 2011.

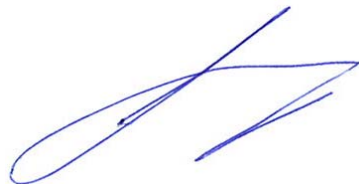
**Pieno Žvaigždės, AB**  
**Confirmation of the Management**

2012 03 21  
Vilnius

**Financial statements and the Annual Report for the year 2011**

We, Aleksandr Smagin, the General Director, and Audrius Statulevičius, the Finance Director, hereby confirm that, to the best of our knowledge, the financial statements for the year 2011 prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of AB Pieno Žvaigždės. The annual report for the year 2011 includes a fair review of the development and performance of the business, the position of the Issuer together with the description of major risks and contingencies incurred by the Issuer.

General Director



Aleksandr Smagin

Finance Director



Audrius Statulevičius

# AB PIENO ŽVAIGŽDĖS

## *ANNUAL REPORT FOR THE YEAR 2011*

### 1. GENERAL INFORMATION ABOUT THE ISSUER

#### **1.1 Accounting Period for which the present Report has been Prepared.**

The present Report has been prepared for the financial year 2011.

#### **1.2. Key Data on the Issuer**

Name	AB Pieno Žvaigždės
Legal status	Stock Company
Registration date	The Company was registered on 23 December 1998
Company code	1246 65536
VAT payer's code	LT 246655314
Authorised capital	54,205,031 LTL, comprising 54,205,031 ordinary shares at par value of 1 LTL each.
Address	Perkūnkiemio g. 3, LT-12127 Vilnius, Lithuania
Telephone	(+370 5) 246 14 14
Fax	(+370 5) 246 14 15
E-mail address	info@pienozvaigzdes.lt
Internet website	www.pienozvaigzdes.lt

#### **1.3. Type of the Issuer's main activities**

The Company's main activity is production of dairy products.

#### **1.4. Agreements with intermediaries of public trading in securities**

The company has signed an agreement with the financial brokerage company AB Finasta (VPK license No.: A 087, address: Konstitucijos pr. 23, Vilnius, telephone (8-5) 278 68 33 fax (8-5) 278 68 38) concerning management of securities accounting.

#### **1.5. Securities admitted to the trading lists of the stock exchanges**

1.5.1. Ordinary shares of AB Pieno Žvaigždės were admitted to the official trading list of NASDAQ OMX Vilnius Stock Exchange.

Type of shares – ordinary registered shares;

Number of shares – 54 205 031;

Total nominal value – 54 205 031 LTL;

VP ISIN code – LT0000111676;

1.5.2. At the end of the year 2011 AB Pieno Žvaigždės has purchased 3 570 612 own shares. After end of the financial year 2011 (at 6 of January 2012) the Company additionally bought 1 000 000 own shares. After this buy back the Company has 4 570 612 own shares or 8.43% of the authorised capital.

## 2. THE INFORMATION PROVIDED FOR IN ARTICLE 25 OF THE LAW ON FINANCIAL STATEMENTS OF ENTITIES OF THE REPUBLIC OF LITHUANIA

### **2.1. The objective review of the Company's state, activity performance and development; the description of the main risk types and uncertainties encountered by the enterprise**

AB Pieno Žvaigždės was established on 23 December 1998 after merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into AB Pieno Žvaigždės. The current structure of the Company enables to specialise production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country.

AB Pieno Žvaigždės is the largest milk processing company in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to Russia, countries of the European Union, CIS and Baltics. Different types of ferment cheese, whey flour and fresh milk products produced by AB Pieno Žvaigždės are the main products produced for export which are well known for their irreproachable quality. The products are awarded with quality certificates.

The main activity of the Issuer is processing of milk. The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results.

The main raw material used by the Issuer is milk, the sales quota for processing of which to the EU milk processing companies is limited by national milk quota. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the Issuer.

The Issuer's business (especially collection and transportation of milk) is a labour consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer.

AB Pieno Žvaigždės has integrated the quality and environment management system as to the requirements of ISO 9001:2008 and ISO 14001:2004. As of March 2012 the Company starts implementing the food safety management system as to ISO 22000:2005, which will be integrated into the existing management system.

Assurance of the quality of dairy products, especially of their safety, i.e. harmlessness to consumers, is one of the major tasks of the Company. The functioning food safety system allows to monitor risk factors and important control points that are related to milk production processes, transportation, consumption and improves the quality control. The Company has prepared, implemented and operate the programs which provide for conditions, measures and behavior rules to prevent biological, chemical and physical contamination and ensure high quality and safety of the dairy products. When implementing the food safety system as to ISO 22000:2005, great attention will be paid to one more risk factor – allergen management.

During the years 1998-2002 the State Food and Veterinarian Office assigned the branches of AB Pieno Žvaigždės with certificates for export to EU, which allow to export dairy products bearing identification marks to the EU countries. Furthermore, all the branches of the Company are approved for export to Russia and Belarus.

A primary certification of the quality management system in the Company's affiliates was performed in 2002. The granted certificates proved that the establishment, documentation

and maintenance of the quality management system complied with the ISO 9001 standard. The certification audit in the affiliates and issuance of the certificates was performed by an international certification firm TUV CERT.

In 2005 the Company started implementing an environment management system as to ISO 14001. The new system was integrated into the Company's existing quality management system, the system was centralised. In February 2007 an international certification firm TUV CERT performed audits of the environment management system and the quality management system of the Company and evaluated the compliance of these systems to ISO 9001 and ISO 14001. The issued certificate proves that an integrated quality and environment management system has been implemented in the central administration and in all the production affiliates of the Company and is operated in the following areas: design, creation, production and realisation of dairy products. The certification firm TUV CERT reviews the system on an annual basis by performing security audits in the Company's affiliates and recertification audits every three years with an issuance of a new certificate provided the evaluation is positive. Last issued certificate is valid until 10 April 2013.

The Company's integrated quality and environment management system ensures that the organisational structure, responsibilities, processes and procedures are described, the main documents are being controlled and reviewed on an ongoing basis, inspections and control procedures are regularly performed, discrepancies identified, analysed and corrected, prevention of discrepancies enforced, compliance to legal and other requirements ensured, preventive actions against pollution performed, and efficiency of environmental performance improved on an ongoing basis.

The Company's affiliate Kauno Pienas is certified for production of ecological products (ecological yogurts BIOS and SVALIA, ecological sour cream BIOS, ecological curds and cottage cheese BIOS). After each annual review, a public company Ekoagros issues a new certificate on the Company's compliance with the requirements. Production of ecological dairy products requires to adhere to strict requirements set not only for production processes but also for their compound parts. The certified ecological products are marked with the following additional information: certification mark of ecological products, code of the certifying firm, reference to the growth place of agricultural goods used for production.

Certain products of the Company are assigned with specific quality certificates HALAL (whey powder and cream) and KOSHER (whey powder).

The Company's management has undertaken to produce safe and high-quality dairy products that satisfy the clients' needs and expectations, with low impact on the environment to the maximum extent, all being defined in the Company's policy on the safety and quality of food and environment protection.

## 2.2. Analysis of financial and non-financial activity results, information related to environment and personnel issues

Key figures, million LTL	2011 12 31	2010 12 31
Turnover	700,9	620,3
Gross profit	132,2	119,5
Profit before tax, interest and depreciation (EBITDA)	66,5	64,0
Profit (loss) before tax	30,0	21,8
Investment in property, plant and equipment	23,3	13,4
Average number of employees	1 937	2 019
Raw milk purchased (natural milk), thousands tons	337	325
Milk purchased as to basic ratios, thousands tons	409	395

### Main quality management and environmental principles:

- The quality management system is oriented towards a customer, thus a lot of attention is devoted to fulfilling customers' needs and expectations.
- The quality management system ensures that all present and future customers' needs are conceived and that the company is doing its best to fulfil their requirements and overcome their expectations.
- Management of the company sets united aims and goals. Heads of the company create environment where all employees take part in order to achieve aims.
- Employees of all levels are involved in company's work.
- All activities of the company, as well as the recourses related to them are managed as a process.
- Interconnected processes are defined, understood and managed as a system, and this increases company's capacity and efficiency.
- Company's target is constant improvement. Improvement activities are integrated with company's strategy and every worker seeks improvement of a product, process and systems.
- Resulting solutions are based on data and information analysis.
- A lot of attention is devoted to connections with suppliers.

Enjoyment of the ISO 9001 and ISO 14001 certificates proves that the structure, duties and responsibilities are strictly defined in the company, processes and procedures set out, major documents controlled and constantly renewed, checked and that management activities are carried out regularly, while the non-conforming ones are identified, analysed and corrected, even more, the prevention of environmental is ensured.

## 2.3. References and additional explanatory notes regarding the data presented in the annual financial statements

Information presented in the financial statements and notes to the financial statements are sufficient, detailed and requires no additional explanation.



#### **2.4. The number of the shares acquired by the entity and the entity's own shares as well as nominal value thereof and a part of the authorised capital made up by these shares**

At the end of 2011 the number of acquired own shares amounted to 3 570 612 or 6,59% of the total share capital. The nominal value of own shares held by the Company amounts to 3 570 612 LTL.

After end of the financial year 2011 (at 6 of January 2012) the Company additionally bought 1 000 000 own shares. After this buy back the Company has 4 570 612 own shares or 8.43% of authorised capital. The nominal value of own shares held by the Company amounts to 4 570 612 LTL.

#### **2.5. The number of the own shares acquired and transferred during the reporting period, where they are acquired or transferred against payment**

During 2011 the Company acquired 15 365 own shares or 0,03% of the total share capital. The nominal value of the acquired own shares is 15 365 LTL.

After end of the financial year 2011 (at 6 of January 2012) the Company additionally bought 1 000 000 own shares or 1,84% of own capital. The nominal value of bought shares 1 000 000 LTL.

#### **2.6. Information about payment for own shares, where they are acquired or transferred against payment**

During 2011 the Company paid 86 thousand LTL for the acquired own shares. After end of the financial year 2011 (at 6 of January 2012) the Company additionally bought 1 000 000 own shares and paid 5,766 million LTL for these shares.

#### **2.7. Reasons for acquiring the entity's own shares during the reporting period**

The shares were acquired aiming to maintain the level of share price in the market.

#### **2.8. Information about branches and representative offices**

AB Pieno Žvaigždės comprises four production branches:

- ✓ Branch Kauno Pienas, Taikos pr. 90, LT-51181 Kaunas;
- ✓ Branch Mažeikių Pieninė, Skuodo g. 4, LT-89100 Mažeikiai;
- ✓ Branch Pasvalio Sūrinė, Mūšos g. 14, LT-39104 Pasvalys;
- ✓ Branch Panevėžio Pienas, Tinklų g. 9, LT-35115 Panevėžys.

#### **2.9. Significant events occurred after the end of the financial year**

No significant events have occurred after the end of the financial year.

#### **2.10. Plans of the Company's activity and forecasts**

AB Pieno Žvaigždės has set the following goals for 2012:

- ✓ Expected sales close to LTL 730 million;
- ✓ Expected EBITDA profitability around 10%;
- ✓ Expected net profit margin around 4%.

#### **2.11. Information about research and development activity**

The Company continuously makes investments and searches for new ways how to ensure a constant and better efficiency growth of its activity.

#### **2.12. The goals of financial risk management, hedging instruments used for expected transactions on which hedging accounting is applied, and the scope of price risk, credit risk, liquidity risk and cash flows risk**

The Company did not use any financial instruments which are important for valuation of the Company's assets, liabilities, financial position and performance results, except for the interest rate swap transaction with the bank as described in note 20 to the financial statements.

### 3. OTHER INFORMATION ABOUT THE ISSUER

#### 3.1. Structure of the Issuer's authorized capital

The authorized capital registered with the Companies Register Center amounts to 54 205 031 LTL. The authorized capital is divided into 54 205 031 ordinary shares (nominal value 1 LTL). All ordinary registered shares of AB Pieno Zvaigzdes are fully paid in.

#### 3.2. Restrictions applicable upon the transfer of securities

There are no restrictions applicable on the transfer of securities.

#### 3.3. Shareholders

The most recent data about Company's shareholders dated January 11, 2012. The Company had 3 624 shareholders.

The shareholders holding by the right of ownership or in trust more than 5 per cent of the Company's authorized capital are as follows:

Shareholder	Number of shares, units	Share of the capital %	Share of votes with related persons %
Clients Skandinaviskas Enskilda banken AB, Sergels Torg 2, 10640 Stockholm Sweden	6 996 307	12,91	14,09
UAB "Agrolitas Imeks Lesma" Laisvės pr 125, Vilnius, i.k. 2191855	6 161 106	11,37	12,41
Swedfund International Sveavagen 24-26, Box 3286, SE-103 65 Stockholm, Sweden	4 700 000	8,67	9,47
ŽŪKB "Smilgelė" J. Tumo Vaižganto 8/27-3. Vilnius, i.k. 2490652	5 660 605	10,44	11,40
Kvaraciejus Julius	7 596 507	14,01	15,30/32,79
Kvaraciejienė Regina	2 152 359	3,97	4,34/32,79
Klovas Voldemaras	2 842 567	5,24	6,25/32,79
Klovienė Danutė	1 091 691	2,01	2,01/32,79
Smagin Aleksandr	2 547 123	4,70	5,13/32,79
Gžegož Rogoža	46 150	0,08	0,09/32,79

#### 3.4. Shareholders having special control rights, and description of such rights;

There are no shareholders having special control rights in the Company.

#### 3.5. All restrictions imposed upon the voting rights

There are no shareholders in the company, who have restrictions imposed upon the voting rights.

#### 3.6. All the agreements concluded among the shareholders of which the issuer was aware and due to which the securities transfer and (or) voting rights may be restricted

The issuer is not aware about any agreements concluded among the shareholders due to which the securities transfer and (or) voting rights may be restricted.

### 3.7. Employees

	2011 12 31	2010 12 31
<b>Average number of employees</b>	<b>1 937</b>	<b>2 019</b>
With university education	402	396
With college education	517	564
With secondary education	873	893
With not completed secondary education	145	166

	2011 12 31	2010 12 31
<b>Average salary, Litas</b>		
Management	6 597	5 738
Specialists	2 637	2 630
Workers	2 081	1 959

### 3.8. Change of the issuer's Articles of Association

Articles of Association of AB Pieno Žvaigždės can be changed in accordance with the laws of the Republic of Lithuania.

### 3.9. Management bodies of the Issuer

The managing bodies of the company are as follows: General shareholders' meeting, the Management Board and the General director. The Supervisory Council is not formed in the Company.

The Management Board is a collegial management body comprised of 6 (six) members. The Board members are elected for the 4 years period. The Board elects the Chairman.

The competence of and procedure of announcement of the shareholders' meeting as well the competence, election, recall and other issues related to the Board and the General director are regulated by the Companies Law of the Republic of Lithuania.

### 3.10. Members of the collegial bodies, the management of the Company

The Management Board

Name, surname	Official duties	Number shares, units	Share of the capital %	From	Until
Paul Bergqvist	Chairman	-	-	2008 12 02	2012 12 02
Lars Ojefors	member	-	-	2008 12 02	2012 12 02
Julius Kvaraciejus	member	7 596 507	14,01	2008 12 02	2012 12 02
Voldemaras Klovas	member	2 842 567	5,24	2008 12 02	2012 12 02
Aleksandr Smagin	member	2 547 123	4,70	2008 12 02	2012 12 02
Gžegož Rogoža	member	46 150	0,08	2008 12 02	2012 12 02

Administration

Name, surname	Official duties	Number shares, units	Share of the capital %
Aleksandr Smagin	CEO	2 547 123	4,70
Audrius Statulevičius	CFO	-	-

The remuneration amount (net of taxes) to the key management calculated for 2011 amounts to 1.220 tLTL. The average amount per person is 203 tLTL.

**3.11. All material agreements to which the issuer is a party and which would come into effect, be amended or terminated in case of change in the issuer's control, also their impact except the cases where the disclosure of the nature of the agreements would cause significant damage to the issuer**

There are no such agreements.

**3.12. All agreements of the issuer and the members of its management bodies, or the employee agreements providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the issuer**

The Issuer has not entered into agreements with the members of its collegial management bodies and employees prescribing payment of allowances in case of resignation or dismissal without grounded reason or termination of work due to change in control over the Issuer.

**3.13. Information on the major related parties' transactions**

(The issuers of equity securities shall additionally present the information on the major related parties' transactions while specifying the amounts of the transactions, the nature of the relations between the parties concerned and other information about the transactions indispensable for the understanding of the financial status of the company where the transactions were material or were concluded under unusual market conditions. The information on individual transactions may be generalised by type of the transactions, except the cases where additional information must be disclosed for the purpose of understanding the impact of the related parties' transactions upon the financial status of the company. The term "related party" shall have the same meaning as used in the accounting standards used by the issuer).

More information on the major related parties' transactions are presented in the Notes to the financial statements.

**4. INFORMATION ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Information on the compliance with the corporate governance code are presented in the addendum No.1 to the Annual Report.

## 5. DATA ON THE PUBLICLY DISCLOSED INFORMATION

All the publicly disclosed information is available on the company's web site [www.pienozvaigzdes.lt](http://www.pienozvaigzdes.lt)

2012-01-13 Pieno Zvaigzdes AB, share buy back

Pieno Zvaigzdes AB finished share buy back through a way of official offer at NASDAQ OMX Vilnius

Share buy back started: 23 December 2011.

Share buy back ended: 6 January 2012.

Max quantity of shares to be bought back: 1,000,000.

Share buy back price: LTL 1.67 EUR per share.

Actual quantity of bought back shares: 1,000,000.

Total quantity of company's bought back shares 4,570,612 or 8.43% of share capital.

2011-12-19 Resolution by Pieno Zvaigzdes AB re share buy back

As per resolution by the General Meeting of Shareholders' of Pieno Zvaigzdes AB, the company initiates buy back of its own common shares of LTL 1 par value. The share buy back is decided through a way of official offer at NASDAQ OMX Vilnius. Share sale offers are accumulated through entire sale term. Should sale offers exceed share buy back in quantity, all offers are reduced in proportion.

Share buy back starts: 23 December 2011.

Share buy back ends: 6 January 2012.

Max quantity of shares to be bought back: 1,000,000.

Share buy back price: LTL 1.67 EUR per share.

2011-12-15 Resolutions of General Shareholders' meeting of Pieno zvaigzdes AB

Shareholders meeting of Pieno Zvaigzdes AB took place on 15 December 2011 at 11.00 am (at corporate headquarters at Perkunkiemo 3, Vilnius, Lithuania, company code 1246 65536, VAT code LT 246655314, data kept and stored at Legal Registrar) by the decision by the company's Board.

Agenda of Shareholders' meeting:

1. Share buy back

Resolutions of Shareholders' meeting of Pieno zvaigzdes AB:

1.1 Buy back the shares of Pieno Zvaigzdes AB through the submarket of official proposal at NASDAQ OMX AB Vilnius, in accordance to the rules governing this market, without approving the circular at Securities Commission.

a) The purpose of share buy back- to stabilize the Company's share price, increase liquidity of shares and avoid a losses due to decreased share price;

b) The maximum number of shares to be purchased - the nominal value of shares to be purchased altogether with already purchased shares shall not exceed 1/10 of nominal capital;

c) the period during which the joint stock company may acquire its own shares - 18 months;

d) the minimum price of the shares to be purchased - 30% lower than last week's weighted arithmetic average of Company's share price at NASDAQ OMX Stock Exchange Vilnius Central Market. The maximum price for the shares to be purchased - 30% higher than last week's weighted arithmetic average of Company's share price at NASDAQ OMX Stock Exchange Vilnius Central Market.

e) The order of selling own shares and the minimum selling price: the minimum selling price is not less than 2/3 of the share purchasing price.

In order to ensure equal opportunities for all shareholders to acquire shares that were bought back, shares will be sold at Stock Exchange Central Market or at auction, informing all

shareholders about such auction timing and the order by registered letter or through public announcement.

1.2 According to the decision of this Annual General Shareholders' Meeting and Article No. 54 of Joint Stock Companies Law of Republic of Lithuania, the Company's CEO is authorised to take all decisions, related to share buy back timing, determining price as well as decisions on acquired shares selling time, price and order as well as to solve any other issues, which are not covered by this authorisation.

2011-11-29 Pieno zvaigzdes AB, not audited financial results for the nine months of 2011

Based on preliminary unaudited results Company's sales over nine months in 2011 accounted to LTL 524.4 million (EUR 151.9 million), 15.6% better compared to a year ago. Sales resulted in LTL 453.6 million (EUR 131.4 million) over nine months in 2010. Increased demand in export markets (especially in first quarter of 2011) had the major impact on Company's financial results in the first nine months of 2011. Export sales increased by 26% and generated proceeds of LTL 281.7 million (EUR 81.6 million) compared to LTL 224.3 million (EUR 65 million) a year ago and accounted to 53.7% of total proceeds over the period.

Over the nine months of the year 2011 Company's EBITDA accounted to LTL 51.0 million (EUR 14.8 million), the Company earned a net profit of LTL 20.2 million (EUR 5.9 million) compared to a net profit of LTL 9.8 million (EUR 2.8 million) over same period in 2010. This year, similar to last year, profits were generated mainly due to successful exports.

The Company's Board is positive of financial result reached over the nine months in 2011. The Board decided to maintain the initial forecast for the whole year 2011. Expected sales for whole year close to LTL 700 million (EUR 200 million), expected EBITDA profitability around 11% and net margin around 4%.

2011-08-31 Pieno zvaigzdes AB, not audited financial results for the first six months of 2011

Based on preliminary unaudited results Company's sales over six months in 2011 accounted to LTL 337.2 million (97.6 million EUR), 23% better compared to a year ago. Sales resulted in LTL 273.4 million (79.2 million EUR) over six months in 2010. Increased demand in export markets had the major impact on Company's financial results in the first six months of 2011. Export sales increased by 39% and generated proceeds of LTL 176.7 million (51.2 million EUR) compared to LTL 126.9 million (36.7 million EUR) a year ago and accounted to 52% of total proceeds over the period.

Over the six months of the year 2011 Company's EBITDA accounted to LTL 31.1 million (9.0 million EUR), the Company earned a net profit of LTL 11 million (3.2 million EUR) compared to a loss of LTL 0.8 million (0.2 million EUR) over same period in 2010. Profitability in domestic market this year was limited by on average 22% higher raw milk prices and minimal corrections of the product sales prices. This year, similar to last year, profits were generated mainly due to successful exports.

The Company's Board is positive of financial result reached over the six months in 2011 taking into account high raw milk price. With respect to financial results reported over the six months in 2011 and market trends in the second half of 2011 the Company's management is staying with the initial forecast for year end 2011 results: expected sales close to LTL 700 million (close to 200 million EUR), expected EBITDA profitability around 11% and net margin around 4.0%.

2011-05-31 Pieno zvaigzdes AB, not audited financial results for the first three months of 2011

Based on preliminary unaudited results Company's sales over three months in 2011 accounted to LTL 165.3 million (EUR 47.9 million), 33% better compared to a year ago,

Sales resulted in LTL 124.4 million (EUR 36.0 million) over three months in 2010. Both increasing product sales prices and high demand in export markets had the major impact on Company's financial results in 2011. Export volumes increased by 33% and generated proceeds of LTL 87.5 million (EUR 25.3 million) compared to LTL 53.8 million (EUR 15.6 million) a year ago and accounted to 53% of total proceeds over the period.

Over the three months of the year Company's EBITDA accounted to LTL 17.1 million (EUR 4.9 million), the Company earned a profit of LTL 6.7 million (EUR 1.9 million) compared to a loss of LTL 4.4 million (EUR 1.3 million) over same period in 2010. This year, similar to last year, profits were generated only due to successful exports.

The Company's Board is positive of financial result reached over the three months in 2011 taking into account untypically high raw milk price and difficulties in the domestic market coupled with constant implementations of cost optimisation programs and maintained stable level of financial debt.

#### 2011-04-28 RESOLUTIONS AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

No	Agenda	Resolution
1.	Annual Report.	Listened.
2.	Audit report on the company's financial accounts and the Annual Report	Listened.
3.	Approval of the IAS accounts 2010.	Approved Company's audited accounts 2010
4.	Profit distribution and establishment of reserves	Approved profit distribution and establishment of reserves of Pieno Zvaigzdes. (Profit distribution attached)
5.	Increase of share capital of Pieno Zvaigzdes, class of the new issue of shares, number, par value and acquisition price	Not approved decision to increase share capital of Pieno Zvaigzdes from 54 205 031 Litass to 58 205 031 Litass through a new stock issue of 4 000 000 common shares at par value of 1 Litass per share.
6.	Amendment of the Articles of Association and approval of the new wording	Not approved decision to change Articles of Association.
7.	Election of the Board Member	Gžegož Rogoža elected as new Board member instead of resigned Linas Sasnauskas.
8.	Election of the Audit Committee members	Violeta Liutkuvienė and Ričardas Bagdonas (independent member) elected to the Audit Committee for the next year.
9.	Election of Audit company	KPMG Baltics elected as an auditor for the next two years.

#### APPROPRIATION OF PROFIT (Approved at the annual shareholders meeting, April 28, 2011)

Items	Amount (in Litass)	Amount (in EUR)
Profit (loss) brought forward from the end of previous year	24.488.037	7.092.226
Financial year profit (loss)	18.570.344	5.378.343
Profit (loss) to be appropriated	43.058.381	12.470.569
Transfers from reserves	370.000	107.159
<b>Profit to be appropriated</b>	<b>43.428.381</b>	<b>12.577.729</b>
Appropriation of profit:		
– dividends *	24.810.865	7.185.723

<i>– management board bonus</i>	<i>420.000</i>	<i>121.640</i>
<i>– to social activities reserve</i>	<i>1.000.000</i>	<i>289.620</i>
<b>Profit ( loss) to be carried forward at the end of the financial year</b>	<b>17.197.516</b>	<b>4.980.745</b>

\* 0,49 LTL (0,14 EUR) per share.

28.02.2011 Pieno zvaigzdes AB, not audited financial results for the 12 months 2010

Revenues for the year 2010 reached 620.3 million LTL (179.7 million EUR) and have decreased by 0.4% compare to the revenues of 622.5 million LTL (180.3 million EUR) a year ago.

EBITDA for the year 2010 reached 64.0 million LTL (18.5 million EUR) and have decreased by 7.0% compare to 68.8 million LTL (19.9 million EUR) a year ago.

Net profit for the year 2010 was 18.6 million LTL (5.4 million EUR) and has increased by 27.5% compare to 14.6 million LTL (4.2 million EUR) a year ago.

28.02.2011 Pieno zvaigzdes AB, expected financial results for the year 2011

Company's management forecasts 2011 year end results:

Expected sales close to LTL 700 million (close to 203 million EUR);

Expected EBITDA profitability around 11%;

Expected net margin around 4%.

17.01.2011 Resolution by Pieno Zvaigzdes AB re share buy back

Vilnius, Lithuania, 2011-01-17 16:00 CET (GLOBE NEWSWIRE) -- As per resolution by the General Meeting of Shareholders' of Pieno Zvaigzdes AB, the company initiates buy back of its own common shares of LTL 1 par value. The share buyback is decided through a way of official offer at NASDAQ OMX Vilnius. Share sale offers are accumulated through entire sale term. Should sale offers exceed share buy back in quantity, all offers are reduced in proportion.

Share buyback starts: 20 January 2011.

Share buyback ends: 8 February 2011.

Max quantity of shares to be bought back: 1,492,585.

Share buyback price: LTL 5.20 (1,506 EUR) per share.

## 6. OTHER INFORMATION

There is no other information that should be disclosed in the annual financial statement under the legal acts governing the activities of companies or other legal acts or the Articles of Association of the Company.



**Addendum 1**

**Disclosure by AB Pieno Zvaigzdes of compliance with the Governance Code  
for the companies listed on NASDAQ OMX Vilnius**

Hereby AB Pieno Zvaigzdes disclose its compliance with the Governance Code and its provisions by the NASDAQ OMX following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Regulations of NASDAQ OMX AB.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<p><b>Principle I: Basic Provisions</b></p> <p><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></p>		
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 presents forecasts announcing significant events through the centralized information system, however due to competition in the market, the Company cannot publicly disclose certain strategies in advance.
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	
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	
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	
<p><b>Principle II: The corporate governance framework</b></p> <p><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></p>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and 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.	No	There is no Council in the Company. Control over the Board is performed by General Shareholders Meeting, to which the Board reports.

<p>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.</p>	<p>Yes</p>	<p>The Board is the collegial management body.</p>
<p>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.</p>	<p>N/A</p>	<p>The Company has executive body – the Board.</p>
<p>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.</p>	<p>Yes</p>	<p>As collegial supervisory body is not formed at the Company the Principle III and IV statements, are applied to the Board as long as it does not contradict to the essence and purpose of such body.</p>
<p>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.</p>	<p>Yes</p>	<p>The Board consists of 6 members who represent interests of shareholders. This number of members is sufficient and ensures that no individual or small group of individuals dominates decision-making of the Board</p>
<p>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.</p>	<p>Yes</p>	<p>The Board members are elected for maximum 4 year term as per legislation. There are no limitations for re-election.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company's general manager is not the chairman of the Board. No obstacles for independent and objective supervision exist.</p>

**Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**

**The order of the formation a collegial body to be elected by a general shareholders' meeting shall ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**

3.1. 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') shall ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Company discloses information of candidates to the Company's collegial body. The shareholders structure does not contain any dominating shareholders. All active shareholder groups have their representatives in the Board.
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 shall be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, shall be also disclosed. The collegial body shall also be informed on any subsequent changes in the provided information. The collegial body shall, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.
3.3. Shall a person be nominated for members of a collegial body, such nomination shall 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 shall, 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	Information about members of collegial body is presented in the annual report of the company. Before election of members of the collegial body, information about them is presented together with the meeting's documentation as per legislation.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined 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	Members of the collegial body have extensive experience in the enterprise management, have versatile knowledge and skills for proper execution of duties.
3.5. All new members of the collegial body shall be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body shall conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the collegial body have extensive experience in the enterprise management. Shall new candidates be elected, they would be acquainted with the situation in the Company and specifics of

		management.
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 shall comprise a sufficient number of independent members.	Yes	1/3 of the Board members are independent
3.7. A member of the collegial body shall 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 dependant 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 shall 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:  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;	Yes	

<p>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;</p> <p>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);</p> <p>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);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</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>Yes</p>	
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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.	Yes	
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body shall be considered to be independent shall be disclosed. When a person is nominated to become a member of the collegial body, the company shall 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 shall disclose its reasons for nevertheless considering the member to be independent. In addition, the company shall annually disclose which members of the collegial body it considers to be independent.	Yes	Based on the independency criteria, set in paragraph 3.7., independent members of the Board are:  - Paul Bergqvist – Chairman of the board; - Lars Ojefors – Board member;
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company shall 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 shall require independent members to have their independence periodically re-confirmed.	Yes	The criteria are met throughout the year
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. The general shareholders' meeting shall approve the amount of such remuneration.	Yes	
<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 shall ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body shall ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') shall ensure integrity and transparency of the company's financial statements and the control system. The collegial body shall issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	Management submits reports to the collegial body at least once per quarter and gets recommendations. The Board approves the annual report prepared by the management.

<p>4.2. Members of the collegial body shall 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 shall (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 shall a member consider that decision of the collegial body is against the interests of the company. Shall a collegial body have passed decisions independent member has serious doubts about, the member shall make adequate conclusions. Shall an independent member resign from his office, he shall 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>The Board members perform on their good will on behalf of the company follow the company's interests trying to maintain independency in decision making.</p>
<p>4.3. Each member shall devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body shall 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 shall be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company shall be notified.</p>	<p>Yes</p>	<p>Members of the collegial body properly fulfill their duties: take active part in sittings and allot sufficient time for execution of duties. All sittings of the collegial body had quorum.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body shall treat all shareholders impartially and fairly. It shall ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company shall have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</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 shall be subject to approval of the collegial body. The decision concerning approval of such transactions shall be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	
<p>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.10 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,</p>	<p>Yes</p>	<p>Board is provided with sufficient administrative and financial resources to discharge their duties.</p>

<p>executive directors or collegial management organs of the company concerned.</p>		
<p>4.7. Activities of the collegial body shall be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body shall establish nomination, remuneration, and audit committees. Companies shall 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 shall 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. Shall the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) shall apply, where relevant, to the collegial body as a whole.</p>	No	Only Audit committee established
<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 10 In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.</p>	Yes	
<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. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	Yes	



<p>4.10. Authority of each of the committees shall be determined by the collegial body. Committees shall 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 shall be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies shall 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 shall 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>Yes</p>	<p>Annual statement of the audit committee is presented to the Board and shareholders meeting.</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 shall 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 shall have a possibility to maintain direct communication with the shareholders. Events when such are to be performed shall be specified in the regulations for committee activities.</p>	<p>Yes</p>	
<p>4.12. Nomination Committee.  4.12.1. Key functions of the nomination committee shall be the following:  1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee shall 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;  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;  3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;  4) Properly consider issues related to succession planning;  5) Review the policy of the management bodies for selection and appointment of senior management.   4.12.2. Nomination committee shall consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company shall be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>N/A</p>	

<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;;</li> <li>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.</li> <li>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation.</li> <li>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li> <li>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);</li> <li>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.</li> </ol> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <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>N/A</p>	
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee shall 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. Shall there be no internal audit authority in the company, the need for one shall 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 shall investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>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, shall 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 shall 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;</li> <li>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ol> <p>4.14.2. All members of the committee shall be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management shall 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 shall 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 shall 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 shall 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 shall 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 shall act as the principal contact person for the internal and external auditors.</p>	<p>Yes</p>	<p>Audit committee established and approved by the shareholders' meeting.</p>
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<p>4.14.5. The audit committee shall be informed of the internal auditor’s work program, and shall be furnished with internal audit’s reports or periodic summaries. The audit committee shall also be informed of the work program of the external auditor and shall be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee shall be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee shall 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 shall 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 shall 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 shall conduct the assessment of its activities. The assessment shall 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 shall, 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><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 shall 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) shall 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 shall 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 shall ensure appropriate conducting of the meetings of the collegial body. The chairperson shall ensure order and working atmosphere during the meeting.</p>	Yes	This regulation in the Company is realised by the Board.

<p>5.2. It is recommended that meetings of the company’s collegial bodies shall be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings shall be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company’s supervisory board shall be convened at least once in a quarter, and the company’s board shall meet at least once a month.</p>	<p>Yes</p>	<p>The Board sittings are convened at least once per quarter.</p>
<p>5.3. Members of a collegial body shall be notified of 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 of the meeting, all the documents relevant to the issues on the agenda of the meeting shall be submitted to the members of the collegial body. The agenda of the meeting shall 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.</p>	<p>Yes</p>	
<p>5.4. In order to co-ordinate operation of the company’s collegial bodies and ensure effective decision-making process, chairpersons of the company’s collegial bodies of supervision and management shall 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 shall be free to attend meetings of the company’s supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	<p>The Board is doing the work that collegial body should do.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>The corporate governance framework shall ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework shall protect the rights of the shareholders.</b></p>		
<p>6.1. It is recommended that the company’s capital shall consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>Ordinary shares comprising the share capital provide equal rights to all shareholders of the Company.</p>
<p>6.2. It is recommended that investors shall have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>Yes</p>	

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 shall be subject to approval of the general shareholders' meeting. All shareholders shall 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.	Yes	The major shareholders have representatives in the Board which is the decision-maker.
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.	Yes	All shareholders are informed about the date, place and time of the general meeting. The shareholders can get information on the meeting's agenda beforehand.
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.	Yes	
6.6. Shareholders shall be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders shall not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	
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	
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework shall 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></p>		

7.1. Any member of the company's supervisory and management body shall 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 shall, 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	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body shall abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
<p><b>Principle VIII: Company's remuneration policy</b></p> <p><b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company shall prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it shall ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b></p>		
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.	N/A	

<p>8.2. Remuneration statement shall mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement shall contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention shall be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	N/A	
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>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;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol>	N/A	
<p>8.4. Remuneration statement shall also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It shall 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>	N/A	



<p>8.5. Remuneration statement shall 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 shall 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 shall be disclosed:</p> <ol style="list-style-type: none"> <li>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;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>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;</li> <li>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;</li> <li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information shall be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>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;</li> <li>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;</li> <li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ol> <p>8.5.3. The following supplementary pension schemes-related information shall be disclosed:</p> <ol style="list-style-type: none"> <li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>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.</li> </ol> <p>8.5.4. The statement shall also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements 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>	N/A	
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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.	N/A	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	N/A	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	N/A	
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.	N/A	
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.	No	
8.11. Termination payments should not be paid if the termination is due to inadequate performance	Yes	
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.	N/A	
8.13. Shares should not vest for at least three years after their award.	N/A	
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	N/A	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	N/A	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	N/A	
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.	N/A	

<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy shall be included into the agenda of the shareholders' annual general meeting. Remuneration statement shall be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	N/A	
<p>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 shall be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme shall 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 shall also be subject to shareholders' approval prior to their adoption; the approval decision shall be made in shareholders' annual general meeting. In such case shareholders shall be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	N/A	
<p>8.20. The following issues shall be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>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 shall also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li> </ol>	N/A	
<p>8.21. Shall 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, shall also be subject to the shareholders' approval.</p>	N/A	
<p>8.22. Provisions of Articles 8.19 and 8.20 shall not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	N/A	
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents shall be posted on the company's website). The notice shall 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 shall 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 shall be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There shall also be a summary on scheme-related expenses the company will suffer</p>	N/A	

<p>due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p><b>Principle IX: The role of stakeholders in corporate governance</b></p> <p><b>The corporate governance framework shall 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></p>		
<p>9.1. The corporate governance framework shall assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	
<p>9.2. The corporate governance framework shall 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>9.3. Where stakeholders participate in the corporate governance process, they shall have access to relevant information.</p>		
<p><b>Principle X: Information disclosure and transparency</b></p> <p><b>The corporate governance framework shall 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 shall 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 shall 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>Yes</p>	<p>Information about the company pointed out in these recommendations is disclosed in the following sources: annual report, financial statements and notes to the financial statements, announcements on acquisition/disposal of shareholdings, announcements on significant events through the information system of the Stock Exchange.</p>
<p>10.2. It is recommended that consolidated results of the whole group to which the company belongs shall be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</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 shall 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 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 shall be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p>	<p>Yes</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. shall be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</p>	
<p>10.5. Information shall 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 shall be disclosed to all simultaneously. It is recommended that notices about material events shall be announced before or after a trading session on the NASDAQ OMX Vilnius, so that all the company's shareholders and investors shall have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>Information through the centralised information system is presented in the Lithuanian and English languages at the same time. Furthermore, the company aims to announce the information before or after the trading session and provide it to all markets in which the company's shares are traded. Information which may influence the share price is not disclosed in any way until such information is publicly announced through the Stock Exchange information system.</p>
<p>10.6. Channels for disseminating information shall provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies shall be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information shall 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>	<p>Yes</p>	
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company shall be placed on the company's website. It is recommended that the company shall 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>	<p>Yes</p>	

**Principle XI: The selection of the company's auditor**

**The mechanism of the selection of the company's auditor shall ensure independence of the firm of auditor's conclusion and opinion.**

11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board shall propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Company follows this regulation. The Board proposes an audit firm for election to the general shareholders meeting.
11.3. It is recommended that the company shall disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information shall 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.	Yes	