

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS,
CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2012

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This version of our report is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the shareholders of Rokiškio sūris AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of Rokiškio sūris AB ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 48, which comprise the stand-alone and consolidated balance sheets as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2012, and their financial performance and their 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 consolidated annual report for the year ended 31 December 2012 have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2012.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in blue ink, appearing to be "Rimvydas Jogėla", written over a circular blue ink stamp.

Rimvydas Jogėla
Partner

Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
4 April 2013

(All tabular amounts are in LTL '000 unless otherwise stated)

Group				Company	
2012	2011		Notes	2012	2011
796,407	688,025	Revenue	5	723,940	689,336
(706,882)	(590,354)	Cost of sales		(667,671)	(612,707)
89,525	97,671	Gross profit		56,269	76,629
(39,406)	(34,794)	Selling and marketing expenses	6	(29,001)	(25,377)
(17,996)	(32,913)	General and administrative expenses	7	(12,491)	(28,675)
13,103	23,036	Other income	8	12,428	21,957
(9,338)	(18,001)	Other expenses	9	(9,377)	(18,007)
83	142	Other (losses)/gains	10	82	130
35,971	35,141	Operating profit		17,910	26,657
(1,590)	(1,904)	Finance costs	12	(1,062)	(1,509)
34,381	33,237	Profit before income tax		16,848	25,148
(5,043)	(5,584)	Income tax	13	(2,528)	(5,264)
29,338	27,653	Profit for the year		14,320	19,884
		Profit for the year attributable to:			
29,338	27,569	Owners of the Company		-	-
-	84	Non-controlling interest		-	-
29,338	27,653			-	-
		Basic and diluted earnings per share (in LTL per share)	14	0,41	0,56
0,84	0,78				

The financial statements on pages 5 to 48 have been approved for issue by the Board of Directors on 4 April 2013 and signed on their behalf by the Director and Chief Financial Officer.

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ROKIŠKIO SŪRIS AB
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(All tabular amounts are in LTL '000 unless otherwise stated)

Statement of comprehensive income

Group				Company	
2012	2011		Notes	2012	2011
29,338	27,653	Profit for the year		14,320	19,884
		Other comprehensive income			
-	88,430	Gain on revaluation of property, plant and equipment	15	-	72,972
-	(13,265)	Deferred income tax on revaluation	18	-	(10,946)
-	75,165	Other comprehensive income for the year		-	62,026
29,338	102,818	Total comprehensive income for the year		14,320	81,910
		Total comprehensive income for the year attributable:			
29,338	102,734	Owners of the Company		-	-
-	84	Non-controlling interest		-	-
29,338	102,818			-	-

The notes on pages 11 to 48 are an integral part of these financial statements.

ROKIŠKIO SŪRIS AB
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(All tabular amounts are in LTL '000 unless otherwise stated)

Balance sheet

Group				Company	
At 31 December				At 31 December	
2012	2011		Note	2012	2011
ASSETS					
Non-current assets					
145,799	169,310	Property, plant and equipment	15	108,070	127,645
1,122	1,330	Intangible assets	16	214	424
552	551	Investments in subsidiaries	17	28,342	28,341
1,077	1,094	Deferred income tax assets	18	1 077	1,094
-	6,690	Available-for-sale financial assets	31	-	6,690
4,617	-	Other receivables	21	1,768	-
31,480	8,968	Loans granted	19	33,920	10,683
184,647	187,943			173,391	174,877
Current assets					
94,871	94,968	Inventories	20	86,812	87,341
43,057	53,490	Loans granted	19	34,487	50,436
121,042	98,965	Trade and other receivables	21	94,428	90,466
5,704	1,915	Prepaid income tax		4,854	1,348
6,029	10,576	Cash and cash equivalents	22	2,983	8,294
270,703	259,914			223,564	237,885
455,350	447,857	Total assets		396,955	412,762
EQUITY					
Attributable to owners of the Company					
35,868	35,868	Share capital	23	35,868	35,868
41,473	41,473	Share premium		41,473	41,473
40,287	40,287	Reserve for acquisition of treasury shares	25	40,287	40,287
(3,868)	(3,868)	Treasury shares	24	(3,868)	(3,868)
71,201	82,598	Other reserves	25	59,519	69,459
130,176	93,004	Retained earnings		94,798	74,045
315,137	289,362	Total equity		268,077	257,264
LIABILITIES					
Non-current liabilities					
1,265	-	Borrowings	26	1,265	-
11,414	13,425	Deferred income tax liability	18	9,192	10,946
3,845	4,683	Deferred income	27	1,542	2,030
16,524	18,108			11,999	12,976
Current liabilities					
6,964	6,030	Income tax liabilities		3,758	5,592
55,093	71,707	Borrowings	26	55,093	71,707
2,387	3,258	Deferred income	27	1,756	2,632
59,245	58,568	Trade and other payables	28	56,272	61,767
-	824	Provisions	29	-	824
123,689	140,387			116,879	142,522
140,213	158,495	Total liabilities		128,878	155,498
455,350	447,857	Total equity and liabilities		396,955	412,762

The notes on pages 11 to 48 are an integral part of these financial statements.

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Company's statement of changes in equity

	Note	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2011		38,445	41,473	29,188	(11,478)	7,433	77,748	182,809
Comprehensive income								
Profit (loss) for the year		-	-	-	-	-	19,884	19,884
Other comprehensive income		-	-	-	-	62,026	-	62,026
Total comprehensive income for 2011		-	-	-	-	62,026	19,884	81,910
Transactions with owners								
Acquisition of treasury shares	24	-	-	-	(3,868)	-	-	(3,868)
Cancelation of treasury shares	25	(2,577)	-	(8,901)	11,478	-	-	-
Transfer to reserves		-	-	20,000	-	-	(20,000)	-
Dividends relating to 2010	25	-	-	-	-	-	(3,587)	(3,587)
Total transactions with owners for 2011		(2,577)	-	11,099	7,610	-	(23,587)	(7,455)
Balance at 31 December 2011		35,868	41,473	40,287	(3,868)	69,459	74,045	257,264
Comprehensive income								
Profit (loss) for the year		-	-	-	-	-	14,320	14,320
Transfer to retained earnings (transfer of depreciation, net of deferred income tax)	25	-	-	-	-	(9,940)	9,940	-
Total comprehensive income for 2012		-	-	-	-	(9,940)	24,260	14,320
Transactions with owners								
Dividends relating to 2011	25	-	-	-	-	-	(3,507)	(3,507)
Total transactions with owners for 2012		-	-	-	-	-	(3,507)	(3,507)
Balance at 31 December 2012		35,868	41,473	40,287	(3,868)	59,519	94,798	268,077

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Group's statement of changes in equity

Attributable to owners of the Company

	Note	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2011		38,445	41,473	29,188	(11,478)	7,433	89,123	194,184	450	194,634
Comprehensive income										
Profit (loss) for the year		-	-	-	-	-	27,569	27,569	84	27,653
Other comprehensive income		-	-	-	-	75,165	-	75,165		75,165
Total comprehensive income for 2011		-	-	-	-	75,165	27,569	102,734	84	102,818
Transactions with owners										
Acquisition of treasury shares	24	-	-	-	(3,868)	-	-	(3,868)	-	(3,868)
Cancellation of treasury shares	25	(2,577)	-	(8,901)	11,478	-	-	-	-	-
Transfer to reserves		-	-	20,000	-	-	(20,000)	-	-	-
Dividends relating to 2010	25	-	-	-	-	-	(3,688)	(3,688)		(3,688)
Acquisition of non-controlling interest in subsidiaries		-	-	-	-	-	-	-	(534)	(534)
Total transactions with owners for 2011		(2,577)	-	11,099	7,610	-	(23,688)	(7,556)	(534)	(8,090)
Balance at 31 December 2011		35,868	41,473	40,287	(3,868)	82,598	93,004	289,362	-	289,362
Comprehensive income										
Profit (loss) for the year		-	-	-	-	-	29,338	29,338	-	29,338
Transfer to retained earnings (transfer of depreciation, net of deferred income tax)	25	-	-	-	-	(11,397)	11,397	-	-	-
Total comprehensive income for 2012		-	-	-	-	(11,397)	40,735	29,338	-	29,338
Transactions with owners										
Dividends relating to 2011	25	-	-	-	-	-	(3,563)	(3,563)	-	(3,563)
Total transactions with owners for 2012		-	-	-	-	-	(3,563)	(3,563)	-	(3,563)
Balance at 31 December 2012		35,868	41,473	40,287	(3,868)	71,201	130,176	315,137	-	315,137

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Statement of cash flows

Group			Note	Company	
Year ended 31 December				Year ended 31 December	
2012	2011			2012	2011
		Cash flows from operating activities			
32,073	14,702	Cash generated from operations	32	21,989	13,038
(1,589)	(1,903)	Interest paid		(1,061)	(1,509)
(2,205)	(2,139)	Income tax paid		(873)	-
28,279	10,660	Net cash generated from operating activities		20,055	11,529
		Cash flows from investing activities			
(10,945)	(16,674)	Purchases of property, plant and equipment	15	(7,529)	(11,024)
(2)	(977)	Purchases of intangible assets		-	(72)
6,689		Purchase of investments		6,689	(1,438)
(2,590)	(15,292)	Loans granted to farmers and employees		(2,590)	(15,292)
(50,080)	(19,199)	Other loans granted		(40,080)	(19,199)
283	628	Proceeds from sale of property, plant and equipment	32	186	607
1,052	3,405	Government grants received	27	718	1,965
28,718	8,295	Other loan repayments received		23,718	8,295
11,550	12,433	Loan repayments from farmers and employees		11,568	7,429
2,656	2,648	Interest received		2,059	2,316
(12,660)	(24,733)	Net cash (used in)/generated from investing activities		(5,261)	(26,413)
		Cash flows from financing activities			
(3,563)	(3,688)	Dividends paid	25	(3,507)	(3,587)
-	(3,868)	Acquisition of treasury shares	24	-	(3,868)
640,682	971,485	Loans received		640,678	971,455
(645,162)	(955,993)	Repayments of borrowings		(645,162)	(955,912)
(8,043)	7,936	Net cash (used in)/generated from financing activities		(7,991)	8,088
7,567	(6,137)	Net (decrease)/increase in cash and cash equivalents		6,803	(6,796)
(1,538)	4,599	Cash and cash equivalents at beginning of year	22	(3,820)	2,976
6,029	(1,538)	Cash and cash equivalents at end of year	22	2,983	(3,820)

The notes on pages 11 to 48 are an integral part of these financial statements.

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Notes to the financial statements

1. General information

Rokiškio Sūris AB (hereinafter "the Company") is a public listed company incorporated in Rokiškis. The Company's code is 173057512 address: Pramonės St. 3 LT-42150 Rokiškis, Lithuania.

The shares of Rokiškio Sūris AB are traded on the Baltic Main List (RSU1L) of NASDAQ OMX Vilnius stock exchange.

The consolidated Group (hereinafter "the Group") consists of the Company its two branches, five subsidiaries and one joint venture (hereinafter "the joint venture") (2011: two branches, five subsidiaries and one joint venture). The branches and subsidiaries that comprise the consolidated Group are indicated below:

	Operating as at 31 December			Shareholding of the Group (%) as at 31 December	
Branches	2012	2011	Subsidiaries	2012	2011
Utenos Pienas	Yes	Yes	Rokiškio Pienas UAB	100.00	100.00
Ukmergės Pieninė	Yes	Yes	Skirpstas UAB	-	100.00
			Žalmargė KB	100.00	100.00
			Jekabpils Piena Kombinats SIA	100.00	100.00
			Kaunata SIA *	60.00	60.00
			Joint venture		
			Pieno Upės UAB	50.00	50.00

* These subsidiaries were not consolidated in the Group's financial statements as they were immaterial.

On 31 March 2011, Skirpstas UAB was put into liquidation. On 31 May 2011, the Company acquired 49.95% of authorised share capital of raw milk collection company Jekabpils Piena Kombinats SIA (Note 17).

All the above-listed subsidiaries, joint venture and branches were registered in Lithuania, except for Jekabpils Piena Kombinats SIA and Kaunata SIA which were registered in Latvia.

The Group's and the Company's main line of business is the production of ferment cheese and a wide range of milk products.

The average number of the Company's employees during the year ended 31 December 2012 was 1,064 people (2011: 1,043 people). The average number of the Group's employees during the year ended 31 December 2012 was 1,564 people (2011: 1,599 people).

2. Accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the valuation of available-for-sale financial assets at fair value and valuation of property, plant and equipment at revalued amount.

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The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions actual results ultimately may differ from those estimates (Note 4).

(a) Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2012:

- **Improvements to International Financial Reporting Standards**, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2012). The improvements had no material impact on the Company's/Group's financial statements.

(b) Standards, amendments and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2011 but are not relevant to the Company's and the Group's operations:

- **Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)**. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This amendment has no impact on the Group's and the Company's financial statements.

(c) New standards, amendments and interpretations to existing standards issued but not yet effective and not early adopted by the Company and the Group:

- **IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Company/Group does not expect the standard to have a significant impact on the financial statements.
- **IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, *Consolidated financial statements*, and IFRS 11, *Joint arrangements*, and replaces the disclosure requirements currently found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured

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entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company/Group does not expect the standard to have a significant impact on the financial statements.

- **IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. Currently, the Company/Group assesses the impact of this standard on their financial statements.
- **IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)**, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013)**. The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or

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apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, *Borrowing costs*, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Transactions with non-controlling interest

The group treats transactions with non-controlling interest as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(c) Joint ventures

The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements. The group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The group does not recognise its share of profits or losses from the joint venture that result from the group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

2.3 Stand-alone financial statements

Subsidiaries in the stand-alone financial statements are accounted at cost less impairment charge – that is the income from the investment is recognized in full where Company receives distributions from accumulated profits of the investee. Distributions received from accumulated profits arising before the date of acquisition are tested for impairment.

2.4 Foreign currency translation

(a) Functional and presentation currency

The items shown in the financial statements of the Company and each company of the Group are valued by the currency of the original economic environment wherein a specific company operates (hereinafter the "functional currency"). These financial statements are presented in Litas (LTL), which is the Company's (and each of the Group entity's) functional and presentation currency, with exception for subsidiaries in Latvia, which functional currency is Latvian Lats (LVL).

With effect from 2 February 2002, the litas has been pegged with the euro at an exchange rate of LTL 3.4528 to EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment is shown at revalued amount, based on periodic valuations of assets, less subsequent accumulated depreciation and impairment.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as revaluation reserve in shareholders'

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equity. Decreases in the carrying amount on subsequent revaluations that offset previous increases of the carrying amount of the same asset are charged in other comprehensive income and debited against revaluation reserve in equity; all other decreases are charged to the income statement. Increases in the carrying amount on subsequent revaluations that offset previous decreases of the carrying amount are recognised in the income statement; all other increases in the carrying amount on revaluation of property, plant and equipment are recognised in other comprehensive income and added to revaluation reserve in shareholders' equity. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings net of deferred income tax.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets only when it is probable that future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Useful lives of property, plant and equipment are given in the table below:

Buildings	15-55 years
Plant and machinery	5-29 years
Motor vehicles	4-10 years
Equipment and other property, plant and equipment	3-20 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress is transferred to appropriate group of property plant and equipment when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount and are included in operating profit.

2.6 Intangible assets

(a) Computer software

Software assets expected to provide economic benefit to the Company and the Group in future periods are valued at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 1 to 5 years.

(b) Contractual customer relationships

Contractual customer relationships recognized as intangible asset upon business acquisition are accounted for at cost less accumulated amortization and impairment. Contractual customer relationships are amortised on the straight-line basis over the estimated useful life of 2 years.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the

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lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Financial assets

a) Loans and receivables

The Group classifies its financial assets in a category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the end of the reporting period.

Available-for-sale financial assets are recognised initially at fair value plus transaction costs and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

Upon the disposal or impairment of available-for-sale investments, the accumulated fair value adjustment recognised in equity is included in profit or loss in the statement of comprehensive income.

The fair value of investments traded in active financial markets is based on quoted closing market prices at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis and other valuation models.

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined by the first-in first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related indirect production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.10 Loans granted, trade and other receivables

Loans granted and amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less the amount of impairment loss. A provision for impairment of amounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The impairment amount is the difference between the asset's carrying

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amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement within 'general and administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

2.12 Share capital

(a) Ordinary shares

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their nominal value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

(b) Treasury shares

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid, including any attributed incremental external costs, is deducted from shareholders' equity as treasury shares until they are sold, reissued or cancelled. No gain or loss is recognised in the income statement on the sale, issuance or cancellation of treasury shares. Where such shares are subsequently sold or reissued, any consideration received is presented in the consolidated financial statements as a change in shareholders' equity.

2.13 Reserves

(a) Other reserves

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. This reserve may be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

(b) Reserve for acquisition of treasury shares

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the acquisition cost of treasury shares acquired.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Interest expense on borrowing is expensed in the statement of comprehensive income.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Profit is taxable at a rate of 15 per cent (2011: 15 per cent) in accordance with the Lithuanian regulatory legislation on taxation.

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Leases – where the Group is the lessee

(a) Finance lease

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or lease term of the asset.

(b) Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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2.17 Employee benefits

(a) Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

(b) Termination benefits

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 Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

Revenue for delivering transportation services is recognized in the period when services are performed.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.19 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to the shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Company and the Group and held as treasury shares.

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2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors that makes strategic decisions.

The Group's management distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter, milk cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products production process types of customers and the method of distribution.

2.22 Government grants and subsidies

Government grants are recognised at fair value where there is sufficient evidence that the grant will be received and the Group and the Company will comply with all attached conditions.

Export subsidies paid by the Government for each exported tone of products meeting certain requirements are included in sales revenue.

Government grants received to finance acquisition of property plant and equipment are included in non-current deferred income in the balance sheet. They are recognised as income on a straight-line basis over the useful life of property plant and equipment concerned.

2.23 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group and the Company have a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specified to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

3. Financial risk management

3.1 Financial risk factors

The Group's and the Company's activities expose them to a variety of financial risks. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

Risk management is carried out by the Company's management. There are no written principles for overall risk management in place.

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(a) Market risk

(i) Foreign exchange risk

The Company and the Group operate internationally, however, their exposure to foreign exchange risk is set at minimum level, since sales outside Lithuania are performed mostly in the euros. The exchange rate of the euro and the litas is fixed.

(ii) Cash flow and fair value interest rate risk

The Company's and the Group's interest rate risk arises from interest-bearing loans and long-term borrowings issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. In 2012 and 2011, loans granted by the Group at a fixed interest rate were denominated in the litas. In 2012 and 2011, borrowings issued to the Group at a variable interest rate were denominated in the litas and the euros.

As at 31 December 2012, the Company's and the Group's net liabilities sensitive to interest rate risk amounted to LTL 29,491 thousand and LTL 21,920 thousand, respectively (31 December 2011: LTL 53,122 thousand and LTL 53,122 thousand, respectively). If interest rate increases / decreases by 0.5 percentage point (2011: 0.5 percentage point), the Company's and the Group's profit would decrease / increase by LTL 150 thousand and LTL 150 thousand, respectively (2011: profit would decrease / increase by LTL 266 thousand and 266 thousand, respectively).

(b) Credit risk

Credit risk arises from cash balances at banks, loans granted, and trade receivables.

As at 31 December 2012, all Company's and Group's cash balances were held in banks that had external credit ratings from 'A' to 'BBB+', as set by the rating agency *Fitch Ratings* (31 December 2011: from 'A' to 'A+').

i) Maximum exposure to credit risk

The table below summarises the Company's and the Group's credit risk exposures relating to on-balance sheet items. Maximum exposure to credit risk before collateral held or other credit enhancements as at 31 December:

Group			Company	
2012	2011		2012	2011
6,029	10,576	Cash and cash equivalents at banks	2,983	8,294
113,192	93,519	Trade receivables	89,188	85,793
74,537	62,458	Loans granted	68,407	61,119
193,758	166,553		160,578	155,206

ii) Credit quality of financial assets

The Group does not classify amounts receivable and other financial assets exposed to credit risk according to credit quality. Credit risk is managed through established credit limits for a major customers and monitoring of overdue receivables and loans. Credit limits and overdue receivables are continuously monitored by the Company's and the Group's management.

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Credit limits and receivables as at 31 December 2011 for the major customers are summarised below:

Group			Company	
Credit limit	Receivables		Credit limit	Receivables
11 000	10 933	Customer A	11 000	10 933
9 500	9 281	Customer B	9 500	9 281
7 000	6 910	Customer C	7 000	6 910
6 500	6 424	Customer D	6 500	6 424
6 100	6 073	Customer E	6 100	6 073
5 500	5 499	Customer F	5 500	5 499
4 500	4 147	Customer G	4 500	4 147
16 500	10 193	Customer H	-	-
7 000	6 175	Customer J	-	-

Credit limits and receivables as at 31 December 2011 for the major 8 customers are summarised below:

Group			Company	
Credit limit	Receivables		Credit limit	Receivables
12 600	12 357	Customer A	12 600	12 357
10 000	9 868	Customer B	10 000	9 868
7 800	7 167	Customer C	7 800	7 167
5 200	5 135	Customer D	5 200	5 135
4 800	4 778	Customer E	4 800	4 778
3 700	3 637	Customer F	3 700	3 637
16 500	10 036	Customer G	-	-
8 940	5 207	Customer H	-	-

Trade receivables did not significantly exceed the established credit limits.

The table below summaries concentration of the loans granted:

Group			Company	
2012	2011		2012	2011
56,854	48,397	Loans granted for amount of above LTL 2 million	57,854	49,634
6,610	6,543	Loans granted for amount above LTL 1 million but not more than LTL 2 million	5,073	4,608
11,073	7,518	Loans granted for amount less than LTL 1 million	5,480	6,877
74,537	62,458		68,407	61,119

Loans in excess of LTL 2 million were granted to the following companies: Agrofirma Turiba SIA, Litrada UAB, Pieno Pramonės Investicijų Valdymas, KP Energy, UAB Maxima, individual farmer K.Deveikis, Maisto Pramonės logistikos grupė UAB and Germis Pro.

(c) Liquidity risk

Prudent liquidity risk management allows maintaining sufficient cash and availability of funding under committed credit facilities.

The table below summarises the Group's and the Company's financial liabilities. The financial liabilities are classified into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash

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flows. Accounts payable and other financial liabilities due within 3 months or less are equal to their carrying amounts as the impact of discounting is insignificant.

Company

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
At 31 December 2012				
Borrowings from banks	29,866	25,206	-	-
Trade payables	49,727	-	-	-
Other payable	-	-	-	-
	79,593	25,206	-	-
At 31 December 2011				
Borrowings from banks	43,640	28,579	-	-
Trade payables	54,772	-	-	-
Other payable	-	-	-	-
	98,412	28,579	-	-

Group

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
At 31 December 2012				
Borrowings from banks	29,866	25,206	-	-
Trade payables	49,879	-	-	-
Other payable	-	-	-	-
	79,745	25,206	-	-
At 31 December 2011				
Borrowings from banks	43,640	28,579	-	-
Trade payables	49,370	-	-	-
Other payable	-	-	-	-
	93,010	28,579	-	-

3.2. Capital risk management

The Company's and the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group and Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company and the Group define their capital as equity and debt less cash and cash equivalents.

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As at 31 December, the Group's and the Company's capital structure was as follows:

Group			Company	
2012	2011		2012	2011
56,358	71,707	Borrowings	56,358	71,707
(6,029)	(10,576)	Less: cash and cash equivalents	(2,983)	(8,294)
50,329	61,131	Net debt	53,375	63,413
315,137	289,362	Shareholders' equity	268,077	257,264
365,466	350,493	Total capital	321,452	320,677

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 150,000 (the authorised share capital of a private company must not be less than LTL 10,000) and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2012 and 31 December 2011 the Company and its subsidiaries registered in Lithuania complied with these requirements.

3.3. Fair value estimation

Trade payables and trade receivables accounted for in the balance sheet should be settled within a period shorter than three months therefore it is deemed that their fair value equals to their carrying amount less impairment. Interest rate on the borrowings received by the Company is subject to repricing at least every six months therefore it is deemed that their fair value equals their carrying amount.

4. Critical accounting estimates and judgements

Provision for impairment of loans and accounts receivable

Provision for impairment of accounts receivable and loans granted was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company and the Group could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Estimates of useful lives of property, plant and equipment

The Company and the Group have old buildings and machinery, where the useful lives are estimated based on the expected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and actions of competitors.

Revaluation of property, plant and equipment

With effect from 31 December 2011, the Company and the Group account for property, plant and equipment at revalued amount less accumulated depreciation and impairment loss. Under the newly adopted accounting policy, the revaluation is carried out periodically to ensure that the carrying amount of property, plant and equipment will not differ significantly from the value determined with reference to the fair value at the end of the reporting period. In 2011, the valuation of property, plant and equipment was carried out by Vadasa UAB using the comparative market price method. The Company's management believes the values of property, plant and equipment adjusted under these methods as of 31 December 2011 approximated the fair value. No revaluation of property, plant and equipment was conducted in 2012 (Note 15).

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5. Segment reporting

Operating segments and reportable segments

The Group's management distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter milk, cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products, production process, types of customers and the method of distribution.

The main two reportable business segments of the Group are as follows:

- Fresh milk products
- Cheese and other dairy products

Other operations of the Group mainly comprise of milk collecting activity which is not of a sufficient size to be reported separately. Transactions between the business segments are on normal commercial terms and conditions. The segment of fresh milk products includes 2 external customers with each individual revenue accounting for 10% of total revenue of the segment.

Segment information for the years ended 31 December 2012 and 2011:

	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2012				
Sales	258,688	723,940	86,299	1 068,927
Inter-segment sales	(30,175)	(158,515)	(83,830)	(272,520)
Sales to external customers	228,513	565,425	2,469	796,407
Segment's gross profit	19,901	69,557	67	89,525
Depreciation and amortisation	7,072	27,451	180	34,703
Income tax expense	2,514	2528	1	5,043
Total assets	63,147	396,955	13,216	473,318
Elimination of intercompany transactions				(17,968)
Total assets less intercompany transactions				455,350
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,112	8,011	292	11,415
Total liabilities	13,805	128,879	9,906	152,590
Elimination of intercompany transactions				(12,377)
Total liabilities less intercompany transactions				140,213

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	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2011				
Sales	310,369	689,336	68,585	1,068,290
Inter-segment sales	(86,730)	(227,433)	(66,102)	(380,265)
Sales to external customers	223,639	461,903	2,483	688,025
Segment's gross profit	45,259	50,173	2,239	97,671
Depreciation and amortisation	5,061	18,119	311	23,491
Income tax expense	295	5,264	25	5,584
Total assets	87,621	412,762	13,645	514,028
Elimination of intercompany transactions				(66,171)
Total assets less intercompany transactions				447,857
Additions to non-current assets (other than financial instruments and deferred tax assets)	5,613	10,516	323	16,452
Total liabilities	28,757	155,497	10,845	195,099
Elimination of intercompany transactions				(36,604)
Total liabilities less intercompany				158,495

Geographical information

All the Company's assets are located in Lithuania. The Company's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2012	2011	2012	2011	2012	2011
Lithuania	194,600	240,496	396,955	412,762	8,011	10,775
Europe Union countries	374,700	328,155	-	-	-	-
Other countries	154,640	120,685	-	-	-	-
	723,940	689,336	396,955	412,762	8,011	10,775

The breakdown of the Group's assets by geographical segments is presented below. The Group's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2012	2011	2012	2011	2012	2011
Lithuania	241,387	225,725	450,923	445,111	11,216	16,209
Europe Union countries	400,368	341,615	4,427	2,746	210	216
Other countries	154,652	120,685	-	-	-	-
	796,407	688,025	455,350	447,857	11,426	16,425

Sales are allocated based on the country in which the customers are located.

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The analysis of the Company's revenue by category:

	2012	2011
Revenue from sales of goods	702,159	666,211
Other revenue (milk transportation)	21,781	23,125
	<u>723,940</u>	<u>689,336</u>

The analysis of the Group's revenue by category:

	2012	2011
Revenue from sales of goods	794,722	687,072
Other revenue (milk transportation)	1,685	953
	<u>796,407</u>	<u>688,025</u>

6. Selling and marketing expenses

Group			Company	
2012	2011		2012	2011
4,921	4,604	Marketing services	-	-
8,301	8,251	Wages and salaries	3,924	3,921
13,581	11,527	Transportation services	12,438	10,468
2,347	2,008	Product image creation and advertising expenses	590	435
3,345	2,462	Repairs and maintenance	2,995	2,101
1,930	1,620	Depreciation of property, plant and equipment	1,728	1,439
788	42	Warehousing services	788	42
4,193	4,280	Other expenses	6,538	6,971
<u>39,406</u>	<u>34,794</u>		<u>29,001</u>	<u>25,377</u>

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7. General and administrative expenses

Group			Company	
2012	2011		2012	2011
7,494	7,701	Wages and salaries	4,748	5,188
215	180	Taxes (other than income tax)	155	137
-	23	Provisions for impairment of loans granted and write-offs of loans (Note 19 and Note 21)	-	23
-	15,720	Provisions for impairment of doubtful receivables	-	15,720
810	482	Consultations	646	334
-	-	Write-offs of investments (Note 17)	-	586
1,492	1,358	Depreciation of property, plant and equipment and amortisation of intangible assets	1,059	895
729	608	Repairs and maintenance	603	498
1,148	1,168	Paid and accrued bonuses	1,148	1,168
323	278	Telecommunications and IT maintenance expenses	248	200
268	223	Insurance expenses	213	167
378	585	Bank charges	337	535
556	622	Business trips	425	506
164	95	Fines	7	6
39	479	Staff training	12	452
67	45	Membership fees	61	39
822	364	Charity, support	620	115
3,491	2,982	Other expenses	2,209	2,106
17,996	32,913		12,491	28,675

8. Other income

Group			Company	
2012	2011		2012	2011
8,910	17,541	Re-sale of goods	8,894	17,526
2,656	3,635	Interest income	2,059	2,847
1,537	1,860	Other income	1,475	1,584
13,103	23,036		12,428	21,957

9. Other expenses

Group			Company	
2012	2011		2012	2011
8,840	17,536	Cost of goods resold	8,830	17,534
498	465	Other expenses	547	473
9,338	18,001		9,377	18,007

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10. Other operating losses

Group			Company	
2012	2011		2012	2011
83	142	Loss on disposal of property, plant and equipment (Note 32)	82	130
83	142		82	130

11. Expenses by nature

Group			Company	
2012	2011		2012	2011
533,752	440,760	Raw materials and consumables used	508,398	414,988
87	(32,382)	Changes in inventories of finished goods and work in progress	529	(31,783)
55,208	52,363	Salaries including social security costs	35,927	34,164
45,031	38,566	Transportation services	43,850	37,470
1,148	1,168	Paid and accrued bonuses	1,148	1,168
34,915	23,630	Depreciation and amortisation	27,661	18,329
(2,761)	(3,258)	Amortisation of the Government grant for property, plant and equipment (Note 27)	(2,082)	(2,633)
4,921	4,604	Marketing services	-	-
12,511	9,880	Repairs and maintenance	11,623	9,058
5,556	8,553	Cost of finished goods resold	20,746	87,790
-	-	Write-offs of investments	-	584
-	23	Impairment of amounts receivable	-	435
510	379	Taxes (other than income tax)	434	320
810	482	Consultations	646	334
399	355	Telecommunications and IT maintenance expenses	324	277
53,851	44,839	Utilities (energy)	34,365	28,318
18,346	68,099	Other	25,594	67,940
764,284	658,061	Total cost of sales, selling and marketing expenses and general and administrative expenses	709,163	666,759

The cost of goods resold decreased significantly as a result of signing an intercompany agreement between the related parties (Note 33).

12. Finance costs

Group			Company	
2012	2011		2012	2011
1,589	1,903	Interest expense:	1,061	1,508
1	1	– bank borrowings	1	1
1,590	1,904	– finance leases	1,062	1,509

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13. Income tax

Group			Company	
2012	2011		2012	2011
(6,530)	(6,148)	Current income tax	(3,758)	(5,592)
(507)	531	Prior year income tax corrections	(507)	531
1,994	33	Deferred income tax (Note 18)	1,737	(203)
<u>(5,043)</u>	<u>(5,584)</u>	Income tax benefit (expenses)	<u>(2,528)</u>	<u>(5,264)</u>

The tax on the Company's and the Group's profit before tax differs from the theoretical amount that would arise when using the basic tax rate as follows:

Group			Company	
2012	2011		2012	2011
34,381	33,237	Profit/(loss) before income tax	16,848	25,148
		Tax calculated at a rate of 15% (2011: 15%) (Note 2.15)	2,527	3,772
5,157	4,986			
226	2,292	Expenses not deductible for tax purposes	74	2,545
(57)	(83)	Income not subject to tax	(43)	(73)
(247)	(101)	Charity expenses deductible twice for tax purposes	(186)	(28)
(543)	(979)	Other expenses deductible for tax purposes	(351)	(421)
507	(531)	Prior year income tax adjustments	507	(531)
<u>5,043</u>	<u>5,584</u>	Income tax expense/(income)	<u>2,528</u>	<u>5,264</u>

Expenses not deductible for tax purposes include representation expenses, write-offs, etc. Income not subject to tax include interest on late payment and insurance benefits received.

The tax authorities have carried out a full-scope tax audit at the Company for the year 2001. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out the inspection of book-keeping and accounting records and impose additional taxes or fines. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

14. Earnings per share

Group			Company	
2012	2011		2012	2011
29 338	27,653	Net profit (loss) attributable to shareholders	14,320	19,884
35 066	35,604	Weighted average number of ordinary shares in issue (thousand)	35,066	35,604
<u>0,84</u>	<u>0,78</u>	Basic earnings (deficit) per share (LTL per share)	<u>0,41</u>	<u>0,56</u>

The Group has no dilutive potential ordinary shares, therefore, the diluted earnings per share are the same as basic earnings per share.

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15. Property, plant and equipment

Company	Buildings	Plant and machinery	Vehicles equipment & other	Construct-ion in progress	Total
At 1 January 2011					
Cost	34,861	139,310	72,636	267	247,074
Accumulated depreciation	(13,279)	(109,918)	(61,348)	-	(184,545)
Net book amount	21,582	29,392	11,288	267	62,529
Year ended 31 December 2011					
Opening net book amount	21,582	29,392	11,288	267	62,529
Additions	672	5,417	3,827	859	10,775
Revaluation	10,521	43,422	19,029	-	72,972
Disposals	(132)	(1)	(345)	-	(478)
Write-offs	-	(20)	(16)	-	(36)
Transfers from CIP	-	634	-	(634)	-
Depreciation charge	(1,255)	(11,886)	(4,976)	-	(18,117)
Closing net book amount	31,388	66,958	28,807	492	127,645
At 31 December 2011					
Revalued value	31,388	66,958	28,807	492	127,645
Accumulated depreciation	0	0	0	-	0
Net book amount	31,388	66,958	28,807	492	127,645
Year ended 31 December 2012					
Opening net book amount	31,388	66,958	28,807	492	127,645
Additions	133	2,886	4,212	780	8,011
Disposals	(90)	-	(14)	-	(104)
Write-offs	-	(1)	(30)	-	(31)
Transfers from CIP	96	256	89	(441)	-
Depreciation charge	(1,340)	(18,393)	(7,718)	-	(27,451)
Closing net book amount	30,187	51,706	25,346	831	108,070
At 31 December 2012					
Revalued value	31,527	70,099	33,064	831	135,521
Accumulated depreciation	(1,340)	(18,393)	(7,718)	-	(27,451)
Net book amount	30,187	51,706	25,346	831	108,070

As at 31 December 2011, the Company's and the Group's property, plant and equipment was revaluated. The fair value of assets was determined by an independent property valuer Vadasa UAB. The valuation of assets was carried out using the comparative market price method. Gain on revaluation of property, plant and equipment was disclosed in the tables of movements in property, plant and equipment, and was recognised in other comprehensive income.

In 2012, no revaluation was carried out for property, plant and equipment because, in the management's opinion, there were no significant changes in the local real estate market, nor in the company's business activities. Consequently, there were no significant changes in the fair value of property, plant and equipment of both companies over the year 2012. The members of the Board of Directors used the assumption that the carrying amount of property, plant and equipment reflected the fair value of these assets of Rokiškio Sūris AB and Rokiškio Pienas UAB, and made the decision not to perform the revaluation for the property, plant and equipment of Rokiškio Sūris AB Group, but to review the depreciation rates used for these assets.

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Group	Buildings	Plant and machinery	Vehicles equipment & other	Construct-ion in progress	Total
At 1 January 2011					
Cost	48,969	162,944	75,147	761	287,821
Accumulated depreciation	(15,814)	(120,623)	(62,908)	-	(199,345)
Net book amount	33,155	42,321	12,239	761	88,476
Year ended 31 December 2011					
Opening net book amount	33,155	42,321	12,239	761	88,476
Additions	601	6,841	4,227	4,756	16,425
Revaluation	19,273	49,896	19,261	-	88,430
Disposals	(141)	(1)	(344)	-	(486)
Write-offs	-	(28)	(16)	-	(44)
Transfers from CIP	1,068	3,496	297	(4,861)	-
Depreciation charge	(3,291)	(15,409)	(4,791)	-	(23,491)
Closing net book amount	50,665	87,116	30,873	656	169,310
At 31 December 2011					
Revalued value	50,665	87,116	30,873	656	169,310
Accumulated depreciation	0	0	0	-	0
Net book amount	50,665	87,116	30,873	656	169,310
Year ended 31 December 2012					
Opening net book amount	50,665	87,116	30,873	656	169,310
Additions	428	4,836	4,438	1,724	11,426
Disposals	(90)	(87)	(23)	-	(200)
Write-offs	-	(1)	(33)	-	(34)
Transfers from CIP	321	668	444	(1,433)	-
Depreciation charge	(2,756)	(23,578)	(8,369)	-	(34,703)
Closing net book amount	48,568	68,954	27,330	947	145,799
At 31 December 2012					
Revalued value	51,324	92,532	35,699	947	180,502
Accumulated depreciation	(2,756)	(23,578)	(8,369)	-	(34,703)
Net book amount	48,568	68,954	27,330	947	145,799

As at 31 December 2012, certain Company's and Groups property, plant and equipment with a carrying value of LTL 38,645 thousand and LTL 47,657 thousand respectively (31 December 2012: LTL 47,471 thousand and 67,970 thousand respectively) was pledged as security for bank borrowings.

Depreciation expenses of property plant and equipment are included in selling and marketing expenses, general and administrative expenses and cost of sales in the income statement, as well as in work in progress and finished goods in the balance sheet.

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Had no revaluation been performed for property, plant and equipment, the net book values of the Group's and the Company's property, plant and equipment would have been as follows as of 31 December 2011 and 2012:

	Buildings	Plant and machinery	Vehicles equipment & other	Construct- ion in progress	Total
Company					
At 31 December 2011	20,867	23,536	9,778	492	54,673
At 31 December 2012	19,746	15,657	10,558	831	46,792
	Buildings	Plant and machinery	Vehicles equipment & other	Construct- ion in progress	Total
Group					
At 31 December 2011	31,391	37,220	11,613	656	80,880
At 31 December 2012	29,993	27,476	12,362	946	70,777

16. Intangible assets

Company	Computer software
At 1 January 2011	
Cost	2,282
Accumulated amortisation	(1,718)
Net book amount	<u>564</u>
Year ended 31 December 2011	
Opening net book amount	564
Additions	72
Amortisation charge	(212)
Closing net book amount	<u>424</u>
At 31 December 2011	
Cost	2,363
Accumulated amortisation	(1,939)
Net book amount	<u>424</u>
Year ended 31 December 2012	
Opening net book amount	424
Additions	-
Amortisation charge	(210)
Closing net book amount	<u>214</u>
At 31 December 2012	
Cost	2,363
Accumulated amortisation	(2,149)
Net book amount	<u>214</u>

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Group	Contractual client relationship	Computer software	Total
At 1 January 2011			
Cost	-	2,562	2,562
Accumulated amortisation	-	(2,070)	(2,070)
Net book amount	-	492	492
Year ended 31 December 2011			
Opening net book amount	-	492	492
Additions	-	73	73
Acquisition of non-controlling interest in subsidiaries	904	-	904
Amortisation charge	-	(139)	(139)
Closing net book amount	904	426	1,330
At 31 December 2011			
Cost	904	2,635	3,539
Accumulated amortisation	-	(2,209)	(2,209)
Net book amount	904	426	1,330
Year ended 31 December 2011			
Opening net book amount	904	426	1,330
Additions	-	3	3
Amortisation charge	-	(212)	(212)
Closing net book amount	904	217	1,121
At 31 December 2012			
Cost	904	2,638	3,542
Accumulated amortisation	-	(2,421)	(2,421)
Net book amount	904	217	1,121

Amortisation expenses of computer software and other intangible assets are included in general and administrative expenses in the income statement.

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17. Investments

The Company's investments in subsidiaries and joint venture are accounted for at cost less impairment in the stand-alone financial statements.

At 1 January 2011	27,487
Acquisition of non-controlling interest in subsidiaries	1,438
Liquidation of subsidiary	(584)
At 31 December 2011	28,341
	-
At 31 December 2012	28,341

During the year 2012, the Company neither acquired nor put into liquidation any subsidiaries. There was no impairment of subsidiaries during the reporting financial year.

The Company holds 50% of shares in a joint venture Pieno Upės UAB with total assets amounting to LTL 2,248 thousand (2011: LTL 2,362 thousand), total liabilities amounting to LTL 1,033 thousand (2011: LTL 1,077 thousand), revenue amounting to LTL 13,295 thousand (2011: LTL 14,344 thousand) and net profit amounting to LTL 45 thousand (2011: LTL 228 thousand).

18. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Group			Company	
2012	2011		2012	2011
479	479	Deferred income tax assets:	479	479
		– to be recovered after more than 12 months		
598	615	– to be recovered within 12 months	598	615
<u>1,077</u>	<u>1,094</u>		<u>1,077</u>	<u>1,094</u>
(11,414)	(13,425)	Deferred income tax liabilities:	(9,192)	(10,946)
-	-	– to be settled after more than 12 months	-	-
<u>(11,414)</u>	<u>(13,425)</u>	– to be settled within 12 months	<u>(9,192)</u>	<u>(10,946)</u>
<u>(10,337)</u>	<u>(12,331)</u>	Net deferred income tax assets	<u>(8,115)</u>	<u>(9,852)</u>

The gross movement in deferred income tax assets was as follows:

Group			Company	
2012	2011		2012	2011
(12,331)	901	At beginning of the year	(9,852)	1,297
1,994	33	Recognised in the income statement (Note 13)	1,737	(203)
-	(13,265)	Recognised in the statement of comprehensive income	-	(10,946)
<u>(10,337)</u>	<u>(12,331)</u>	At end of the year	<u>(8,115)</u>	<u>(9,852)</u>

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

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Company					
Deferred income tax assets	Inventory net realisable value adjustment	Amortised cost of loans granted	Tax losses carried forward	Bonuses and vacation reserve	Total
At 1 January 2011	-	479	-	818	1,297
Recognised in the income statement	253	-	-	(456)	(203)
At 31 December 2011	253	479	-	362	1,094
Recognised in the income statement	(14)	-	-	(3)	(17)
At 31 December 2012	239	479	-	359	1,077

Deferred income tax liabilities	Revaluation of property, plant and equipment	Total
At 1 January 2011	-	-
Recognised in the income statement	(10,946)	(10,946)
At 31 December 2011	(10,946)	(10,946)
Recognised in the income statement	1,754	1,754
Recognised in other comprehensive income	-	-
At 31 December 2012	(9,192)	(9,192)

Group					
Deferred income tax assets	Inventory net realisable value adjustment	Amortised cost of loans granted	Tax losses carried forward	Bonuses and vacation reserve	Total
At 1 January 2011	-	479	-	818	1,297
Recognised in the income statement	253	-	-	(456)	(203)
At 31 December 2011	253	479	-	362	1,094
Recognised in the income statement	(14)	-	-	(3)	(17)
At 31 December 2012	239	479	-	359	1,077

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	Accelerated tax depreciation	Revaluation of property, plant and equipment	Total
Deferred income tax liabilities			
At 1 January 2011	(396)	-	(396)
Recognised in the income statement	236	-	236
Recognised in other comprehensive income	-	(13,265)	(13,265)
At 31 December 2011	(160)	(13,265)	(13,425)
Recognised in the income statement	-	2,011	2,011
Recognised in other comprehensive income	-	-	-
At 31 December 2012	(160)	(11,254)	(11,414)

Deferred income tax assets and deferred income tax liabilities were calculated using a tax rate of 15% (2011: 15%) enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

19. Loans granted

Group			Company	
2012	2011		2012	2011
8,698	7,406	Long-term loans to farmers	8,698	7,291
1,122	569	Long-term loans to employees	888	684
24,756	4,089	Other long-term loans	27,430	5,804
(3,096)	(3,096)	Less: provision for impairment of loans receivable	(3,096)	(3,096)
31,480	8,968	Long-term loans, net	33,920	10,683
7,081	13,365	Current portion of loans to farmers	2,198	12,460
114	328	Current portion of loans to employees	103	114
35,862	39,797	Other short-term loans granted	32,186	37,862
-	-	Less: provision for impairment of loans receivable	-	-
43,057	53,490	Current portion of long-term loans and short-term loans	34,487	50,436

Loans to farmers were granted with repayment terms ranging from 2 months to 10 years. The annual interest rate ranges from 0 to 10 per cent. Effective interest rate was 9.25 per cent (2011: 9.37 per cent).

Long-term loans to employees were granted with repayment terms ranging from 1 to 25 years. The loans are interest free. Effective interest rate was 10.75 per cent (2011: 9.34 per cent).

As at 31 December 2012, the fair value of loans granted to employees amounted to LTL 698 thousand (2011: LTL 615 thousand). As at 31 December 2012, the fair value of loans granted to farmers amounted to LTL 8,535 thousand (2011: LTL 16,212 thousand).

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The information of loans receivable past due as at 31 December is provided in the table below:

Group			Company	
2012	2011		2012	2011
70,234	59,716	Loans granted not past due	64,104	58,377
3,833	3,369	Loans granted past due but not impaired	3,833	3,369
3,566	2,469	Impaired loans granted	3,566	2,469
77,633	65,554	Gross value of loans granted	71,503	64,215
(3,096)	(3,096)	Impairment of amounts uncollectible	(3,096)	(3,096)
74,537	62,458	Net amount	68,407	61,119

20. Inventories

Group			Company	
2012	2011		2012	2011
7,810	7,002	Raw materials	3,449	2,710
21,713	17,752	Work in progress	21,151	17,291
63,708	68,335	Finished products	61,459	66,342
3,238	3,569	Other inventories	2,351	2,688
96,469	96,658	Total inventories at cost	88,410	89,031
(1,598)	(1,690)	Less: inventory write-down to net realizable value	(1,598)	(1,690)
94,871	94,968	Total inventories	86,812	87,341

As at 31 December 2012, inventories with cost of LTL 25,000 thousand (31 December 2011: LTL 25,000 thousand) were pledged as security for bank borrowings.

As of 31 December 2012, the Company's inventories comprising 358 tons of butter were held with the third party in Lithuania, and 655 tons of hard cheese were held in a warehouse in European Union country.

As at 31 December 2011, the Company did not hold any inventories with third parties.

21. Trade and other receivables

Group			Company	
2012	2011		2012	2011
		Non-current receivables		
4,617	-	Other receivables	1,768	-
4,617	-		1,768	-
		Current receivables		
113,192	93,575	Trade receivables	89,188	85,793
6,198	4,079	VAT receivable	4,143	3,583
1,652	1,311	Advance payments and deferred expenses	1,097	1,090
121,042	98,965		94,428	90,466

As of 31 December 2012, there were no trade receivables pledged as collateral (as of 31 December 2011, trade receivables pledged as collateral amounted to LTL 27,868 thousand).

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The information on receivables past due as at 31 December is provided in the table below:

Group			Company	
2012	2011		2012	2011
84,892	76 389	Trade receivable neither past due nor impaired	63,415	71,454
28,300	17 186	Trade receivable past due but not impaired	25,773	14,339
-	5 766	Impairment of amounts uncollectible	-	5,766
113,192	99 341	Gross value	89,188	91,559
-	(5 766)	Impairment charge	-	(5,766)
113,192	93 575	Net value of loans granted	89,188	85,793

The Group had no credit enhancements in respect of impaired amounts receivable. As of 31 December 2012, the Company had no trade receivables from its subsidiary Rokiškio Pienas UAB (31 December 2011: LTL 17,144 thousand).

Trade receivables that are less than 360 days past due are not considered impaired if the Group does not possess other negative information about the solvency status of customers. The ageing analysis of trade receivables past due but not impaired as at 31 December is as follows:

Group			Company	
2012	2011		2012	2011
22,131	10,507	Up to 30 days	19,987	8,652
5,843	2,868	31 to 60 days	5,466	1,909
326	3,750	61 to 180 days	320	3,717
-	61	More than 181 days	-	61
28,300	17,186		25,773	14,339

22. Cash and cash equivalents

Group			Company	
At 31 December			At 31 December	
2012	2011		2012	2011
42	6,602	Short-term deposits	41	6,582
5,987	3,974	Cash at bank and in hand	2,942	1,712
6,029	10,576		2,983	8,294

As at 31 December 2012 and 2011, cash in bank accounts and future cash inflows into these accounts were pledged as security for bank borrowings. As at 31 December 2012, cash balances in the pledged accounts amounted to LTL 896 thousand (31 December 2011: LTL 7,605 thousand).

For the purposes of cash flow statement, cash and cash equivalents comprise as follows:

Group			Company	
At 31 December			At 31 December	
2012	2011		2012	2011
42	6,602	Short-term deposits	41	6,582
5,987	3,974	Cash at bank and in hand	2,942	1,712
-	(12,114)	Bank overdrafts (Note 26)	-	(12,114)
6,029	(1,538)		2,983	(3,820)

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23. Share capital

As at 31 December 2012, the share capital was divided into 35,867,970 (31 December 2011: LTL 38,867,970) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid.

24. Treasury shares

	2012		2011	
	Number	Amount	Number	Amount
At beginning of the year	802,094	(3,868)	2,576,924	(11,478)
Treasury shares acquired	-	-	802,094	(3,868)
Reduction of share capital	-	-	2,576,924	11,478
	802,094	(3,868)	802,094	(3,868)

As a result of cancellation of 2,576,924 own shares in March 2011, the authorised share capital of Rokiškio Sūris AB amounts to LTL 35,867,970 (thirty-five million, eight hundred and sixty-seven thousand, nine hundred and seventy litas) and it is divided into 35,867,970 (thirty-five million, eight hundred and sixty-seven thousand, nine hundred and seventy) ordinary registered shares with the nominal value of LTL 1 (one litas) each.

During the period from September to December 2011, Rokiškio Sūris AB acquired 802,094 own shares for the amount of LTL 3,868 thousand. These shares account for 2.24% of the Company's authorised share capital. In 2012, the Company did not acquire any own shares.

As of 31 December 2012, the Company had 802,094 own shares.

In respect of own shares, the Company is not entitled to property and non-property rights stipulated in the Lithuanian Law on Companies.

25. Other reserves and reserve for acquisition of treasury shares

Other reserves

Non-distributable reserves of LTL 3,593 thousand can only be used to increase the share capital and non-distributable reserves of LTL 3,840 thousand (legal reserve) can only be used to cover future operating losses, if any. Remaining reserve of LTL 52,086 thousand and LTL 63,768 thousand relates to revaluation of property plant and equipment (*See below for the disclosure of the revaluation reserve*).

Reserve for acquisition of treasury shares

During 2012, no decisions were adopted in relation to the formation of the reserve for the acquisition of own shares. As of 31 December 2012, the total amount of the reserve for the acquisition of own shares remained unchanged and was equal to LTL 40,287 thousand.

Dividends

The dividends per share (excluding own shares) declared at the Company for the year 2011 and paid out in 2012 amounted to LTL 0.10 (with the nominal value of LTL 1 per share), and totalled LTL 3,507 thousand.

Revaluation reserve

Revaluation reserve represents an increase in the value of property, plant and equipment as a result of its revaluation. This reserve may not be used to cover losses. Movements in revaluation reserve are given in the table below:

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Company

At 1 January 2011

Revaluation of property, plant and equipment	72,972
Deferred income tax	(10,946)

Revaluation reserve at 31 December 2011 **62,026**

Depreciation of revalued amount of PP&E (Note 15)	(11,694)
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Change in deferred tax liability on depreciation of revalued amount of PP&E recognised in the income statement (Note 18)	1,754
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Depreciation of revalued amount of PP&E net of deferred income tax	(9,940)
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Revaluation reserve at 31 December 2012 **52,086**

Group

At 1 January 2011

Revaluation of property, plant and equipment	88,430
Deferred income tax	(13,265)

Revaluation reserve at 31 December 2011 **75,165**

Depreciation of revalued amount of PP&E (Note 15)	(13,408)
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Change in deferred tax liability on depreciation of revalued amount of PP&E recognised in the income statement (Note 18)	2,011
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Depreciation of revalued amount of PP&E net of deferred income tax	(11,397)
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Revaluation reserve at 31 December 2012 **63,768**

26. Borrowings

Group			Company	
2012	2011		2012	2011
		Current		
55,072	59,557	Current bank borrowings	55,072	59,557
-	12,114	Bank overdrafts	-	12,114
21	36	Finance lease liabilities	21	36
55,093	71,707		55,093	71,707
		Non-current		
1,265	-	Non-current bank borrowings	1,265	-
-	-	Finance lease liabilities	-	-
56,358	71,707	Total borrowings	56,358	71,707

The bank borrowings are secured over certain property plant and equipment (Note 15), inventories (Note 20), trade receivables (Note 21), cash in certain bank accounts (Note 22).

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Weighted average interest rates effective as at 31 December (per cent) were as follows:

Group			Company	
2012	2011		2012	2011
1.31	2.38	Current bank borrowings	1.31	2.38
-	1.73	Bank overdrafts	-	1.73

The carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

Group			Company	
2012	2011		2012	2011
56,337	59,593	EUR	56,337	59,593
21	12,114	LTL	21	12,114
<u>56,358</u>	<u>71,707</u>		<u>56,358</u>	<u>71,707</u>

Fair value of borrowings approximates their carrying values due to the fact that interest rate on borrowings is subject to repricing on a daily, monthly or quarterly basis.

As at 31 December 2012, according to the agreement concluded with the banks, the balances of credit lines and overdrafts not withdrawn by the Company and the Group amounted to LTL 48,747 thousand (2011: LTL 51,817 thousand).

The Group is not in breach of borrowing limits or covenants (where applicable) established.

27. Deferred income

Group			Company	
2012	2011		2012	2011
7,941	7,795	Government grants at beginning of year	4,662	5,330
1,052	3,302	New grants received	718	1,862
(2,761)	(3,156)	Amortisation of deferred income to match related depreciation	(2,082)	(2,530)
<u>6,232</u>	<u>7,941</u>		<u>3,298</u>	<u>4,662</u>
(3,845)	(4,683)	Less: non-current portion	(1,542)	(2,030)
<u>2,387</u>	<u>3,258</u>	Current portion	<u>1,756</u>	<u>2,632</u>

Deferred government grant is related to acquisition of property, plant and equipment using the European Union funds and the funds of the Lithuanian Government under the SAPARD and other programmes. The Company has no obligation to repay or otherwise refund the grants received unless it breaches the contractual provisions contained in the agreements concluded with the grantors.

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28. Trade and other payables

Group			Company	
2012	2011		2012	2011
49,879	49,370	Trade payables	49,727	54,772
4,293	4,356	Salaries, social security and taxes	2,633	2,806
341	1,420	Other payables	527	874
4,732	3,422	Bonuses and vacation reserve	3,385	3,315
<u>59,245</u>	<u>58,568</u>		<u>56,272</u>	<u>61,767</u>

As at 31 December 2012, trade payables to Rokiškio Pienas UAB amounted to LTL 8,185 thousand (31 December 2011: LTL 12,333 thousand).

29. Provisions

In March 2008, the Competition Council imposed a fine of LTL 824 thousand on the Company as a result of the inspection of the Company and other companies operating in the milk sector. The Company's management established a provision for the amount of the fine. For the purpose of the income statement for the year ended 31 December 2008, this amount was included in the administrative expenses. In 2011, based on the revised decision of the Competition Council, the fine was increased up to LTL 1,650 thousand. The Company lodged a complaint against the Council's decision and on 26 January 2012 the complaint was met in full in favour of the Company by Vilnius Regional Administrative Court. As of 31 December 2012, the Company reversed the provision amounting to LTL 824 thousand.

30. Contingent liabilities and commitments

Contingent liabilities

Group			Company	
2012	2011		2012	2011
-	3,920	Guarantees issued by the bank to third parties on behalf of the Group	-	3,920
-	-	Guarantees issued by the Group on behalf of farmers and agricultural companies	-	-
<u>-</u>	<u>3,920</u>		<u>-</u>	<u>3,920</u>

The Group has issued these guarantees in the ordinary course of business and anticipates that no material liabilities will arise.

Capital expenditure commitments

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognised in the financial statements amounted to LTL 5,687 thousand (31 December 2011: LTL 657 thousand).

Operating lease commitments – where the Group is the lessee

The Group leases passenger cars and premises under operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

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Group			Company	
2012	2011		2012	2011
327	16	Not later than 1 year	327	16
-	-	Later than 1 year but not later than 5 years	-	-
327	16		327	16

31. Available-for-sale financial assets

As of 31 December 2012, the Company had no available-for-sale financial assets. The Company's and the Group's debt securities as of 31 December 2011 comprised Lithuanian Government bonds amounting to LTL 6,690 thousand. The fair value is based on the quoted prices for similar type of assets. On 8 March 2012, the Company sold its debt securities.

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32. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

Group			Company	
At 31 December			At 31 December	
2012	2011		2012	2011
34,381	33,237	Net profit (loss) before income tax	16,848	25,148
		Adjustments for:		
34,703	23,491	– depreciation (Note 15)	27,451	18,117
210	139	– amortisation and impairment charge (Note 16)	210	212
		– write-off of property, plant and equipment and intangible		
34	44	assets (Notes 15 and 16)	31	36
(83)	(142)	– loss on disposal of property, plant and equipment	(82)	(130)
		(Note 10)		
1,589	1,903	– interest expense (Note 12)	1,061	1,509
(2,656)	(2,648)	– interest income (Note 8)	(2,059)	(2,316)
(92)	1,690	– write-offs of inventories	(92)	1,690
-	190	– impairment of investments into subsidiaries (Note 17)	-	780
		– impairment of doubtful receivables and write-offs of		
43	524	bad receivables (Note 21)	-	524
(2,051)	(1,604)	– accrual for vacation reserve and bonus	(1,148)	(1,604)
-	(534)	– non-controlling interests	-	-
(2,761)	(3,259)	– amortisation of government grants received (Note 27)	(2,082)	(2,633)
		Changes in working capital:		
(34,529)	(9,937)	– amounts receivable and prepayments	(10,574)	(2,406)
187	(34,071)	– inventories	622	(33,474)
3,098	5,679	– amounts payable	(8,197)	7,585
<u>32,073</u>	<u>14,702</u>	Net cash generated from operations	<u>21,989</u>	<u>13,038</u>

In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

2012	2011		2012	2011
200	486	Net book amount (Note 15)	104	477
83	142	Loss on disposal of property, plant and equipment (Note 10)	82	130
<u>283</u>	<u>628</u>	Proceeds from sale of property, plant and equipment	<u>186</u>	<u>607</u>

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33. Related-party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company's Director), which together own 62.07 per cent (2011: 58.31 per cent) of the Company's share capital and 63.49 per cent (2011: 59.65 per cent) of voting rights. (802,094 treasury shares acquired by the Company do not have voting rights). Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 35.69 per cent of the Company's share capital are widely held. The Company's related parties, such as the Company's Board, PPIV, board, management of the Company or the Group and their close family members, together hold 70.27 per cent (2011: 66.41 per cent) of the Company's shares with voting rights.

Pieno Pramonės Investicijų Valdymas UAB, the members of the Board and Senior Management and their close family members are treated as related parties.

Certain cooperative societies engaged in the production of milk are treated as related parties of the Company through close family relationships with members of the Senior Management and because certain of the Company's employees have significant influence over day-to-day activities of these societies.

Group			Company	
At 31 December			At 31 December	
2012	2011		2012	2011
<i>(i) The following transactions were carried out with related parties:</i>				
13,941	13,688	Purchase of raw milk from other related parties	105,305	85,298
-	20	Purchase of non-current assets	10	280
-	-	Purchase of inventory	26,187	86,747
3,300	5,449	Purchases of services	7,145	10,729
-	-	Purchase of consulting services	-	713
1	5	Sales of transportation services to other related parties	19,978	21,903
1,481	1,067	Sales of production and other inventories	139,476	205,839
-	-	Sale of non-current assets	18	-
161	81	Interest charges on credit facility	161	81

With effect from 1 January 2012 and based on the agreement signed on 2 January 2012, the Group's management decided to use a zero price for purchases of raw materials used in the production of exported goods of Rokiškio Sūris AB, whereas the goods produced by Rokiškio Pienas UAB would be sold as services, i.e. net of the cost of raw materials to ensure a fair disclosure of the inter-company sales/purchases between Rokiškio Sūris AB and Rokiškio Pienas UAB. As a result of amendments to this agreement, there was a significant decrease in the Company's sales of goods and raw materials, as well as in acquisition of inventories.

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(ii) Year-end balances arising from transactions with related parties:

2012	2011		2012	2011
171	181	Non-interest bearing loans granted to Senior Management (and their families)	171	181
		Credit facility granted to Pieno Pramonės Investicijų		
18,220	9,338	Valdymas UAB	18,220	9,338
-	-	Loan granted to Jekabpils Piena Kombinats SIA	6,001	5,550
-	972	Trade payables to other related parties	12,478	17,910
-	-	Trade receivables from other related parties	-	17,144

(iii) Compensation of key management

2012	2011		2012	2011
643	676	Salaries	643	615
1,168	1,168	Bonuses	1,168	1,168
180	190	Social security contributions	180	171
1,991	2,034		1,991	1,954

Key management includes 9 (2011: 9) members of the Board and Senior Management.

34. Events after the end of the reporting period

On 25 February 2013, amendment to the credit agreement was signed with the bank in relation to the extension of the repayment term of overdraft (LTL 2m) until 31 January 2014, and the extension of the repayment term of credit limit (EUR 18m) until 15 February 2014. The total credit limit is LTL 64,150 thousand, with no repricing of interest rates.

On 28 February 2013, the shareholder adopted Decision No. 18 to initiate the reorganisation of the Company Rokiškio Pienas UAB by way of unbundling (and approve the drafting of unbundling terms and conditions), whereby a part will be separated from the Company Rokiškio Pienas UAB, which will continue milk product distribution activities, and on the basis of assets, rights and obligations attributed to that part, a new company with the same legal status will be established – Rokiškio Pieno Gamyba UAB – which will basically be engaged in milk product production activities.