**STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013**
(All amounts in LTL thousands unless otherwise stated)

		The Group		The Company	
ASSETS	**Notes**	**31 12 2013**	**31 12 2012**	**31 12 2013**	**31 12 2012**
Non-current assets					
Intangible assets	5	376	408	368	383
Property, plant and equipment	5,6	62.979	64.458	43.213	44.594
Investment assets	5,6	919	259	4.755	4.193
Investments into subsidiaries	1	4	4	10.882	10.882
Loans granted	7	5.535	4.900	5.535	6.738
Deferred income tax asset	23	3.505	2.149	3.366	2.098
Total non-current assets		**73.318**	**72.178**	**68.119**	**68.888**
Current assets					
Inventories	8	112.720	97.674	99.830	90.234
Prepayments		1.513	1.740	1.482	1.697
Trade accounts receivable	9	28.899	32.978	31.695	32.042
Other accounts receivable	10	5.290	6.842	6.323	6.190
Cash and cash equivalents	11	6.958	5.789	5.153	5.427
Total current assets		**155.380**	**145.023**	**144.483**	**135.590**
TOTAL ASSETS		**228.698**	**217.201**	**212.602**	**204.478**
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	48.375	48.375	48.375	48.375
Own shares (-)		(4.569)	(3.002)	(4.569)	(3.002)
Legal reserve		4.838	4.838	4.838	4.838
Other reserves		15.764	15.000	15.764	15.000
Retained earnings		102.713	82.985	96.496	80.104
Equity attributable to equity holders of the Company		**167.121**	**148.196**	**160.904**	**145.316**
Minority interest		2.371	1.947	-	-
Total Equity		**169.492**	**150.143**	**160.904**	**145.316**
Non-current liabilities					
Grants received	13	5.929	4.389	3.632	1.744
Borrowings	14	-	-	-	-
Obligations under finance lease	15	369	796	369	796
Deferred income tax liability		1.203	1.083	-	-
Other current liabilities	23	38	24	38	24
Total non-current liabilities		**7.539**	**6.292**	**4.039**	**2.564**
Current liabilities					
Borrowings	14	1.568	13.934	1.568	13.934
Obligations under finance lease	15	426	2.457	426	2.211
Trade accounts payable	17	31.562	27.283	29.726	25.600
Income tax payable		2.869	53	2.869	53
Other accounts payable	18	15.242	17.039	13.070	14.799
Total current liabilities		**51.667**	**60.766**	**47.659**	**56.598**
Total liabilities		**59.206**	**67.058**	**51.698**	**59.162**
TOTAL EQUITY AND LIABILITIES		**228.698**	**217.201**	**212.602**	**204.478**

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements:

Robertas Pažemeckas
Acting General Director

Dalia Gecienė
Senior accountant

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL thousands unless otherwise stated)

	Notes	The Group Jan-Dec 2013	The Group Jan-Dec 2012	The Company Jan-Dec 2013	The Company Jan-Dec 2012
Sales	19	529.185	500.515	522.783	489.659
Cost of sales		(428.554)	(404.244)	(430.829)	(401.007)
GROSS PROFIT		**100.631**	**96.271**	**91.954**	**88.652**
Operating expenses	20	(74.811)	(67.050)	(72.423)	(65.677)
Other operating income and expenses	21	1.053	(1.711)	2.733	2.332
(LOSS) PROFIT FROM OPERATIONS		**26.873**	**27.510**	**22.264**	**25.307**
Finance costs		(88)	(587)	(87)	(619)
Other financial income and expenses	22	345	273	446	485
(LOSS) PROFIT BEFORE TAX		**27.130**	**27.195**	**22.623**	**25.173**
Income tax (benefit) expense	23	(3.898)	(3.181)	(3.152)	(3.051)
NET (LOSS) PROFIT		**23.232**	**24.014**	**19.471**	**22.122**
ATTRIBUTABLE TO:					
Equity holders of the Company		22.774	23.784	19.471	22.122
Minority interest		458	230	-	-
		23.232	**24.014**	**19.471**	**22.122**
Basic and diluted earnings per share (LTL)	25	**0,47**	**0,49**	**0,40**	**0,46**

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements:

Robertas Pažemeckas
Acting General Director

Dalia Gecienė
Senior accountant

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL, in thousands, unless otherwise stated)

The Group

	Share capital	Own shares	Legal reserve	Reserves for purchase own shares	Other reserves	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total
Balance as of									
31 December 2011	48.375	-	4.838	14.997	3.000	56.193	127.403	1.944	129.347
Transfer to other reserves	-	-	-	3	-	-	3	-	3
The use of reserves	-	-	-	-	(3.000)	3.000	-	-	-
Acquisitios of own shares		(3.002)					(3.002)		(3.002)
Subsidiary company liquidation result						8	8	(227)	(219)
Net profit	-		-	-	-	23.784	23.784	230	24.014
Balance as of									
31 December 2012	48.375	(3.002)	4.838	15.000	-	82.985	148.196	1.947	150.143
Dividends	-	-	-	-	-	(2.315)	(2.315)	-	(2.315)
Transfer to other reserves	-	-	-		764	(764)	-	-	-
Reserves used	-		-	-	-	-	-	-	-
Acquisition of own shares	-	(1.567)	-	-	-	-	(1.567)	-	(1.567)
Subsidiary company liquidation result	-	-	-	-	-	33	33	(34)	(1)
Net profit	-		-	-	-	22.774	22.774	458	23.232
Balance as of									
31 December 2013	48.375	(4.569)	4.838	15.000	764	102.713	167.121	2.371	169.492

The Company

	Share capital	Own shares (-)	Legal reserve	Reserves for own shares	Other reserves	Retained earnings	Total
Balance as of							
31 December 2011	**48.375**	-	**4.838**	**14.997**	**3.000**	**54.982**	**126.192**
Dividends	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	3	-	-	3
Reserves used	-	-	-		(3.000)	3.000	-
Acquisition of own shares		(3.002)					(3.002)
Net profit	-	-	-	-	-	22.122	22.122
Balance as of							
31 December 2012	**48.375**	**(3.002)**	**4.838**	**15.000**	-	**80.104**	**145.316**
Dividends	-	-	-		-	(2.315)	(2.315)
Transfer to reserves	-	-	-		-	-	-
Reserves used	-	-	-	-	764	(764)	-
Acquisition of own shares	-	(1.567)	-	-	-	-	(1.567)
Net profit	-	-	-		-	19.471	19.471
Balance as of							
31 December 2013	**48.375**	**(4.569)**	**4.838**	**15.000**	**764**	**96.496**	**160.904**

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements:

Robertas Pažemeckas
Acting General Director

Dalia Gecienė
Senior accountant

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in LTL thousands unless otherwise stated)

	The Group		The Company	
	Jan-Dec 2013	**Jan-Dec 2012**	**Jan-Dec 2013**	**Jan-Dec 2012**
Cash flow from operating activities				
Profit (loss) for the period	23.232	24.014	19.471	22.122
Adjustments:				
Depreciation and amortization	14.999	17.282	12.845	15.217
Amortization of grants received	(864)	(903)	(515)	(558)
Gain (loss) on disposal of non-current assets	(174)	80	(175)	(210)
Corporate income tax expenses	(1.236)	268	(1.268)	138
Impairment of accounts receivable	324	786	324	786
Impairment of property, plant and equipment	-	(16)	-	-
Impairment of inventories to net realizable value	8.710	5.624	8.094	5.624
Net financial expenses (income)	(257)	(73)	(359)	134
Elimination of non-cash items	(3.073)	(552)	(3.223)	(527)
Loss from liquidation of subsidiaries	-	(20)	-	(5)
Net cash flows from ordinary activities before changes in working capital	**41.661**	**46.490**	**35.194**	**42.721**
Changes in working capital:				
(Increase) decrease in inventories	(23.755)	(12.261)	(17.690)	(15.145)
(Increase) decrease in trade receivables	3.755	6.593	23	7.247
(Increase) decrease in prepayments	227	(1.199)	215	(1.193)
(Increase) decrease in other receivables	1.658	526	1.792	1.116
(Decrease) increase in trade payables	4.279	(8.025)	4.125	(3.857)
(Decrease) increase other accounts payable	120	510	338	654
Corporate income tax paid	2.817	53	2.817	53
Net cash flows from operating activities	**30.762**	**32.687**	**26.814**	**31.595**
Cash flows from (to) investing activities				
Acquisition of intangible assets and property, plant and equipment.	(14.979)	(11.285)	(12.821)	(9.302)
Proceeds on sale of property, plant and equipment	986	851	986	307
Acquisition of subsidiaries	-	10	-	76
Sale of investments available for sale	-	-	-	-
Repayment of loans granted	5.257	6.569	5.257	8.002
Loans granted	(5.980)	(7.213)	(5.980)	(7.213)
Interest received	438	448	481	452
Net cash flows (to) investing activities	**(14.278)**	**(10.620)**	**(12.077)**	**(7.678)**
Cash flows from (to) financing activities				
Acquisition of own shares	(1.567)	(3.000)	(1.567)	(3.000)
Dividends, bonus paid	(1.147)	-	(1.147)	-
Grants received	2.403	3.044	2.403	1.483
Loans received	68.510	48.264	68.510	48.264
Repayment of loans	(80.866)	(69.716)	(80.866)	(69.716)
Financial lease payments	(2.457)	(4.038)	(2.212)	(3.675)
Interest paid	(88)	(627)	(87)	(619)
Other financial (income) and expenses	(103)	238	(45)	34
Net cash flows from financial activities	**(15.315)**	**(25.835)**	**(15.011)**	**(27.229)**
Net increase (decrease) in cash and cash equivalents	**1.169**	**(3.768)**	**(274)**	**(3.312)**
Cash and cash equivalents at the beginning of the year	**5.789**	**9.556**	**5.427**	**8.739**
Cash and cash equivalents at the end of the year	**6.958**	**5.789**	**5.153**	**5.427**

The accompanying explanatory notes are an integral part of these consolidated financial statements and financial statements.

Robertas Pažemeckas
Acting General Director

Dalia Gecienė
Senior accountant

1.GENERAL INFORMATION

Reporting entity

AB "Žemaitijos Pienas" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984.

AB "Žemaitijos Pienas" is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius.

As on the 31th of December 2013, its shares are held by the following shareholders

Shareholder	31 12 2013		31 12 2012	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	21.589.380	44,63%	21.589.380	44,63%
SKANDINAVISKA ENSKILDA BANKEN CLIENTS code 50203290810, SERGELS TORG 2 10640 STOCKHOLM, SWEDEN	-	-	3.643.525	7,53%
SEB SA OMNIBUS, Liuksemburg	3.413.962	7,06%	-	-
AB „Klaipėdos pienas" code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	3.601.844	7,45%
Pažemeckienė Danutė	3.025.820	6,25%	3.025.820	6,25%
AB „Žemaitijos pienas"	2.070.621	4,28%	1.360.010	2,81%
Other shareholders	15.373.373	31,78%	15.154.421	31,33%
Total share capital, LTL	**48.375.000**	**100,00%**	**48.375.000**	**100,00%**

The authorized capital was divided into 4.837.500 units of ordinary registered shares of one Litas per value. All the shares are issued, subscribed and fully paid.
Taking into account the legal requirements the Company prepares consolidated financial statements.

As on the 31th of December 2013 the Group consisted of AB "Žemaitijos Pienas" and the following subsidiaries (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2013	Cost of investment 2012	Net assets as of 31 December 2013	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87,82%	87,82%	10.878	10.878	19.466	Cheese production and selling
Tarpučių Pienas ŽŪK	Klaipėdos str. 3, Šilutė, Lithuania	12,08%	100,00%	-	-	0	Liquidated on 31 January 2013
SIA Muižas piens"	Skaitkalnes g. 1, Riga, Latvija	32%	-	4	4	-	Retail sale, wholesale
				10.882	**10.882**		

The Company employed 1.205 staff members as on the 31th of December 2013 (1.231 staff members as on the 31th of December 2012). The Group employed 1.381 staff members as on the 31th of December 2013 (1.416 staff members as on the 31th of December 2012).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in the national currency Litas (LTL), which is the functional currency of the Company. They are prepared on the historical basis.
Financial year of the Company and other entities of the Group coincides with calendar year.

The preparation of the financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are correspond to the present circumstances. On the basis of the assumptions and estimates mentioned, the judgements about carrying values of assets and liabilities that are not readily apparent from other sources are made. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Management on application of IFRS as adopted by the European Union that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in other Note.

The accounting principles of the Company as set forth below have been consistently applied and coincide with those applied last year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared as of 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities that meet the recognition conditions under IFRS 3 are recognized at their fair values at the acquisition date. The initial accounting for the subsidiaries assets and liabilities are adjusted within twelve months of the acquisition date if additional data is received that allows a more precise determination of fair value of the subsidiaries' assets and liabilities.

Investments in subsidiaries in the Company's stand alone balance sheet are recognized at cost. The dividend income from the investment is recognized only to the extent that the dividends are received from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.
The result of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets and liabilities recognized.
All intercompany transactions, balances, income, expenses and unrealized profits (losses) between Group companies are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

The influence of application of new standards, amendments of the standards in force and new explanations on financial statements

During the year the Company has adopted the following amendments to the standards:

Amendment to IAS 12 Income tax. Deferred tax – Recovery of Underlying Assets.
The amendment did not impact the Company's financial statements.

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income.
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

Amendment to IAS 27 Consolidated and Separate Financial Statements.
This standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
The amendment did not impact the Company's financial statements.

Amendment to IAS 28 Investments in Associates and Joint Ventures.
This standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
The amendment did not impact the Company's financial statements.

Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.
The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.
Effective for annual periods beginning on or after 1 January 2013.
This amendment is not relevant to the Company.

IFRS 10 Consolidated Financial Statements.
IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
The amendment did not impact the Company's financial statements.

IFRS 11 Joint Arrangements.
IFRS 11 eliminates proportionate consolidation of jointly controlled entities.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
This amendment is not relevant to the Company.

IFRS 12 Disclosures of Interests in Other Entities.
IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
The amendment did not impact the Company's financial statements.

IFRS 13 Fair Value Measurement.
This standard does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The amendment did not impact the Company's financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.
This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs').
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
This interpretation is not relevant to the Company.

Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU as well as standards adopted by EU but not yet effective

Amendment to IAS 19 Employee Benefits
There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.
The Group has not yet evaluated the impact of the implementation of this amendment.
Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.
The Company considers the impact of this standard on its financial position and operating results.

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems).
Effective for annual periods beginning on or after 1 January 2014. Earlier adoption is permitted.
This amendment is not relevant to the Company

IFRS 9 Financial Instruments – Classification and Measurement
The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities.
Effective for annual periods beginning on or after 1 January 2015. Earlier adoption is permitted.
The Company considers the impact of this standard on its financial position and operating results.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities
The amendments apply to entities that qualify as investment entities.
Effective for annual periods beginning on or after 1 January 2014, once endorsed by the EU.
This interpretation is not relevant to the Company.

Improvements to IFRS
In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:
IFRS 1 First-time adoption of IFRS;
IAS 1 Presentation of Financial Statements;
IAS 16 Property, Plant and Equipment;
IAS 32 Financial instruments: Presentation;
IAS 34 Interim Financial Reporting.
Effective for annual periods beginning on after 1 January 2013, once endorsed by the EU.
The Company considers the impact of these improvements on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of Company's assets consists of the expenses directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and other expenses incurred to produce these assets before setting them into use and expenses of disassembling, transportation and production site cleaning.

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

Subsequent costs

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- Buildings and structures 20–40 years
- Plant and machinery 5 years
- Vehicles 4–10 years
- Other assets 4–10 years

Depreciation methods, residual values and useful lives are reassessed on each day of presenting financial statements. The Group capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500. Until 1 September 2012 the minimum acquisition cost was LTL 3.000.
Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

Investment property

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.
Depreciation is computed on a straight-line basis over the estimated useful life of 20 - 40 years.
Transfers to or from investment property are made when and only when there is an evidence of a change in use.

Non-current intangible assets

Intangible assets that have limited useful life and that include computer software and other licences and trademarks acquired by the Company are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the income statement on a straight-line basis over the entire service life. The amortisation rates of intangible assets can be specified as follows:

- Software and licences 3 years

Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are written off when incurred.

Leased assets

Leases, in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower

of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other lease is treated as operational lease.
Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Inventories

Inventories, including work in progress, are valued at the lower of cost or net realisable value. Net realisable value is the selling price, less the estimated cost of completion, marketing and distribution.

The costs of inventories is determines based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities.

Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

Governmental grants

Grants are accounted following the principle of accumulation, i.e. received grants or parts thereof are recognised as used in the periods, within which grant-related costs are incurred.

Grants are related to assets

Grants that are related to assets encompass grants received in the form of non-current assets or allotted for acquisition of non-current assets. Grants are accounted at the fair value of the assets received and later recognised as income, reducing asset depreciation costs within the respective useful service life of the assets.

Impairment

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

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Financial asset is impaired if there are if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Individually significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset that is deemed impaired on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that is tested for impairment on a portfolio basis.

An impairment loss is recognised wherever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash generating unit is the smallest cash generating asset group generating cash flows independent form other assets or asset groups. Impairment losses are recognised in the statement of comprehensive income.

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividends

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

Employee allowances

The Company and the Group have no determined allowances and inducement plans or payment schemes concerning its chares. Liabilities against retired former employees of the Company and the Group are fulfilled by the State.

Provisions

Provisions are recognised in the statement of financial position when it is probable that an outflow of economic benefits will be required to settle the obligation arising from a past event or fulfilment of irrevocable undertakings.

Foreign currency

Translation of amounts in foreign currencies into the national currency
Transactions in foreign currencies are translated into Litas at foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

As on the 31th of December 2013 the applicable rates used for principal currencies were as follows:

year 2013	year 2012
1 EUR = 3,4528 LTL	1 EUR = 3,4528 LTL
1 LVL = 4,9184 LTL	1 LVL = 4,9520 LTL
1 USD = 2,5098 LTL	1 USD = 2,6060 LTL

Non-derivative financial instruments

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Cash and cash equivalents include cash balances and demand deposits.

Non-derivative financial instruments are initially recognised at fair value plus (except for the instruments recognised in the income statement at fair value) any direct attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognized on the day of transaction. The Company no longer recognises the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognised when it has been covered, revoked or expired.

Receivables are non-derivative financial assets and are not quoted in an active market. They are included into current assets except for maturities greater than 12 months. Loans issued and receivables are initially recognised at fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method, less impairment, if any. Current receivables are not discounted.

Loans, borrowings and other financial liabilities are stated at amortised cost on an effective interest method basis. Current liabilities are not discounted.

Financial derivatives

The Company and the Group did not use or have derivative financial instruments within the period ended on the 31th of December 2013.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed in the explanatory notes of financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed in the explanatory notes of financial statements when an inflow or economic benefits is probable.

Revenue

Sales of goods

Revenue from the sale of goods is recognised in the statement of comprehensive income when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT, excise tax and price discounts directly related to the sales.

Services rendered, assets disposed

Revenue from the services rendered is recognised in the statement of comprehensive income as the services are rendered, considering the extent of completion of the services. The revenue recognised is net of discounts provided.

Revenue from lease is recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

Revenue from disposal of assets is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or return of assets disposed is possible or when the significant risks and rewards of ownership cannot be regarded as transferred to the buyer.

Expenses

Expenses are recognized on an accrual basis when incurred.

Operating lease payments
Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

Financial lease payments
Minimum lease payments are apportioned between the financial charge and the reduction of the outstanding liability applying the effective interest rate method. The financial costs are distributed over the whole period of financial lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Net financing expenses
Net financing expenses consist of interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses.

Interest income is recognised in the comprehensive income statement as accrued, using the effective interest method. The interest expense component of financial lease payments is recognised in the statement of comprehensive income, using the effective interest rate method.

Segment reporting

Segment is a distinguishable component of the Company that is engaged either in providing related products or services, or in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. In the presented financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

Corporate income tax

Corporate income tax consists of current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent it relates to the items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent it is likely that the future taxable profits will be available against which the assets can be utilised. Deferred tax asset is revised on each date of provision of financial statements and is reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intends to settle its current tax assets and liabilities on a net basis.

Basic and diluted earnings (loss) per share

The Company presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects off all dilutive potential ordinary shares. During reporting periods there were no any dilutive potential ordinary shares issued by the Company.

Subsequent events

The events which occurred after the reporting period and provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. The post balance sheet events which are not adjusting events are disclosed in the explanatory notes when are material.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events. Management of the Company, considering forecasts and budget, borrowing need, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no obscurities in the assessment of continuity of the Company's activities or doubts concerning its further operation.

The Company makes estimates and assumptions concerning future events. Resulting accounting estimates will, by definition, seldom equal the related actual results. In preparing the financial statements of the Group and of the Company, management have to adopt certain decisions, estimates and assumptions, which influence the disclosures of income, costs, assets and liabilities as well as uncertainties as of the date of the financial statements. However, uncertainty of such estimates and assumptions can have an impact upon results, which may require significant corrections of book values of assets or liabilities in the future.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Impairment losses on receivables

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

Amount receivable impairment losses recognised to be paid after the delay of 120 days or more.
Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of non-financial assets

The Company's management assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts of value may not be recoverable. When the calculations of value in use are undertaken, the management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred Tax Assets and Liabilities

Deferred profit tax assets and liabilities are recognised for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Based on the Company's and the Group's management judgements are recognized the significant deferred tax assets amounts that can be recognised based on the expected future taxable profits in periods and sizes, and with regard to the Company's tax planning strategies.

5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS

Note No 5 – Intangible and tangible non-current assets (In the statement of financial position)

Changes in intangible assets of the Group as of 31 December 2013:

The Group	Licenses and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2011	**110**	**419**	**829**	**1.359**
- acquisition	2	100	107	209
- transfers between accounts	-	-	(7)	(7)
As of 31 December 2012	**112**	**520**	**928**	**1.560**
- acquisition	22	105	119	246
- sold or written-off assets	(1)	(3)	(29)	(33)
As of 31 December 2013	**133**	**622**	**1.018**	**1.773**
Accumulated depreciation				
As of 31 December 2011	**12**	**385**	**548**	**945**
- amortization	36	32	139	207
- amortization of transferred and written-off assets	-	-	-	-
As of 31 December 2012	**48**	**417**	**687**	**1.152**
- amortization	38	78	159	275
- amortization of transferred and written-off assets	-	(3)	(27)	(30)
As of 31 December 2013	**86**	**492**	**819**	**1.397**
Net book value:				
As of 31 December 2012	**64**	**103**	**242**	**408**
As of 31 December 2013	**47**	**130**	**199**	**376**

Changes in intangible assets of the Company as of 31 December 2013:

The Company	Licences and patents	Computer software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2011	**107**	**329**	**829**	**1.265**
- acquisition	2	92	107	200
- transfers between accounts	-	-	(7)	(7)
As of 31 December 2012	**109**	**421**	**928**	**1.458**
- acquisition	22	105	119	245
sold or written-off assets	(1)	-	(28)	(29)
As of 31 December 2013	**130**	**526**	**1.017**	**1.673**
Accumulated depreciation				
As of 31 December 2011	**10**	**326**	**548**	**885**
- amortization	36	16	139	191

- amortization of transferred and written-off assets	-	-	-	-
As of 31 December 2012	**46**	**342**	**687**	**1.075**
- amortization	38	61	158	257
- amortization of transferred and written-off assets	-	-	(27)	(27)
As of 31 December 2013	**84**	**404**	**818**	**1.305**
Net book value:				
As of 31 December 2012	**63**	**79**	**242**	**383**
As of 31 December 2013	**47**	**122**	**199**	**368**

In 2013 amortization of non-current intangible assets of the Group and the Company amounts to LTL 275 thousand and LTL 257 thousand respectively (In 2012 – LTL 207 thousand and LTL 191 thousand.
Investments in the purchase of non-current intangible assets made by the Group and the Company in 2013 amount to LTL 246 thousand and LTL 245 thousand respectively (In 2012 - LTL 209 thousand and LTL 200 thousand). As all the assets of the Group and the Company are located in Lithuania, all the investments were made in the Lithuanian geographic segment.

Changes in property, plant and equipment of the Group as of 31 December 2013:

The Group	**Land, buildings and constructions**	**Machinery and equipment**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress and prepayments**	**Total**
Acquisition cost						
As of 31 December 2011	**42.402**	**142.340**	**38.059**	**12.520**	**2.664**	**237.985**
- acquisition	1.383	4.171	626	953	4.171	11.304
- sold or written-off assets	(117)	(2.497)	(1.455)	(1.500)	(705)	(6.273)
- recalculation of the accounting policy change	-	29	-	794	-	823
-transfers to investing assets	(323)	-	-	-	-	(323)
- transfers between accounts	-		-		-	-
- Adding value	3	856	47	126	(848)	184
- reclassification	15	3.488	-	-	(3.994)	(491)
As of 31 December 2012	**43.363**	**148.387**	**37.277**	**12.893**	**1.288**	**243.208**
acquisition	25	1.138	1.111	848	11.483	14.605
recalculation of the accounting policy change	-	-	-	(41)	(52)	(93)
sold or written-off assets	(19)	(1.172)	(1.934)	(387)	-	(3.512)
Adding value	1	-	158	2	-	161
reclassification	877	2.318	13	-	(3.208)	-
transfers to investing assets	(857)	-	-	-	-	(857)
transfers between accounts	-	-	-	-	-	-
As of 31 December 2013	**43.390**	**150.671**	**36.624**	**13.315**	**9.510**	**253.512**
Accumulated depreciation As of 31 December 2011	**17.513**	**110.935**	**26.302**	**11.363**	-	**166.113**
depreciation	2.060	11.447	2.635	659	-	16.801
depreciation of written-off and sold assets	(54)	(1.651)	(1.423)	(1.488)	-	(4.616)
Recalculation of the accounting policy change	-	11	-	259	-	270
transfers to investing assets	(62)	-	-	-	-	(62)
As of 31 December 2012	**19.457**	**120.742**	**27.514**	**10.793**	-	**178.507**
- depreciation	1.924	9.398	2.188	1.033	-	**14.543**
- depreciation of written-off and sold assets	(18)	(1.119)	(1.245)	(361)	-	**(2.743)**

recalculation of the accounting policy change	14	9	-	-	-	23
reclassification	-	-	-	-	-	-
- transfers to investing assets	(14)	-	-	-	-	(14)
- transfers between accounts	-	-	-	-	-	-
As of 31 December 2013	**21.363**	**129.030**	**28.457**	**11.465**	**-**	**190.316**
Accumulated impairment losses	**196**	**18**	**-**	**36**	**7**	**258**
As of 31 December 2011						
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(16)	-	-	-	-	(16)
As of 31 December 2012	**180**	**18**	**-**	**36**	**7**	**242**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	(14)	(9)	-	-	-	(23)
As of 31 December 2013	**166**	**9**	**-**	**36**	**7**	**219**
Net book value:						
As of 31 December 2012	**23.726**	**27.627**	**9.763**	**2.064**	**1.281**	**64.458**
As of 31 December 2013	**21.861**	**21.632**	**8.168**	**1.814**	**9.503**	**62.979**

Changes in property, plant and equipment of the Company as of 31 December 2013:

The Company	**Land, buildings and constructions**	**Machinery and equipment**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress and prepayments**	**Total**
Acquisition cost						
As of 31 December 2011	**26.760**	**125.680**	**27.091**	**10.201**	**2.653**	**192.384**
- acquisition	1.383	3.867	597	939	2.542	9.328
recalculation of the accounting policy change	-	25		759	-	784
- sold or written-off assets	(56)	(1.150)	(1.376)	(349)	(705)	(3.636)
- adding value	3	856	47	126	(847)	185
- reclassification	-	1.874	-	-	(2.366)	(491)
-transfers between accounts	(323)	-	-	-	-	(323)
As of 31 December 2012	**27.768**	**131.152**	**26.359**	**11.676**	**1.277**	**198.232**
- acquisition	25	1.136	1.111	684	9.456	12.412
recalculation of the accounting policy change	-	-	-	-	-	-
- sold or written-off assets	(2)	(842)	(1.934)	(387)	-	(3.165)
- adding value	1	-	158	2	-	161
- reclassification	862	362	13	-	(1.237)	-
- transfers to accounts investing assets	(857)	-	-	-	-	(857)
- transfers from investing assets	-	-	-	-	-	-
As of 31 December 2013	**27.797**	**131.808**	**25.707**	**11.975**	**9.498**	**206.784**
Accumulated depreciation						
As of 31 December 2011	**8.919**	**101.344**	**22.236**	**9.161**	**-**	**141.661**
- depreciation	1.531	10.400	2.039	600	-	14.570
- depreciation of written-off and sold assets	(21)	(1.117)	(1.366)	(336)	-	(2.840)
-recalculation of the accounting		9		248		257
-transfers to investing assets	(62)	-	-	-		(62)
- reclassification	-	-	-	-	-	-
As of 31 December 2012	**10.367**	**110.636**	**22.909**	**9.673**	**-**	**153.586**
- depreciation	1.509	8.231	1.601	966	-	12.307
- depreciation of written-off and sold assets	(1)	(789)	(1.245)	(321)	-	(2.356)
recalculation of the accounting policy change	-	-	-	-	-	-
reclassification	-	-	-	-	-	-
transfers to investing assets	(14)	-	-	-	-	(14)
- transfers from investing assets	-	-	-	-	-	-

As of 31 December 2013	**11.862**	**118.078**	**23.265**	**10.317**	**-**	**163.522**
Accumulated depreciation						
As of 31 December 2011	**6**	**9**	**-**	**36**	**-**	**51**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2012	**6**	**9**	**-**	**36**	**-**	**51**
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2013	**6**	**9**	**-**	**36**	**-**	**51**
Net book value						
As of 31 December 2012	17.394	20.507	3.450	1.967	1.277	44.594
As of 31 December 2013	15.930	13.721	2.442	1.622	9.498	43.213

For the year ending at 31 December 2013 the depreciation costs of the Group's and the Company's property, plant and equipment amounts to LTL 14.543 thousand and LTL 12.307 thousand respectively (31 December 2012 – LTL 16.801 thousand and LTL 14.570 thousand).

On 31 August 2012 the minimum value of fixed asset was changed from LTL 3.000 to LTL 500 in accordance with the order of AB "Žemaitijos pienas" General Director. Due to these changes, a part of the write-off low-value assets, totalling LTL 823 thousand in the Group and LTL 784 thousand in the Company, were reinstated to the fixed assets with the calculated depreciation in the amount of LTL 270 thousand in the Group and LTL 257 thousand in the Company. Due to the adjustments above, cash flow report of the Group reflects elimination of non-cash items to the amount of LTL 552 thousand, whereas the cash flow report of the Company reflects elimination of non-cash items to the amount of LTL 527 thousand.

On 31 December 2013, Company's fixed tangible assets, which residual value equalled LTL 8.611 thousand (on 31 December 2012 it equalled LTL 8.897 thousand), were pledged to the banks for the Company's received loans. On 31 December 2012 the subsidiary company ABF "Šilutės Rambynas" also had pledged fixed tangible assets for the Company's received loans, which residual value equalled LTL 37.4 thousand) (see Note 14) On 31 December this Company hadn't pledged fixed tangible assets.

A part of the Group's and the Company's fixed tangible assets, which acquisition value on 31 December 2013 equalled LTL 129.994 thousand and LTL 122.254 thousand respectively, was completely depreciated (31 December 2012 respectively – LTL 104.769 thousand and LTL 97.359 thousand), however still used in the business.
Investments in the the acquiring of non-current tangible and intangible assets made by the Group and the Company in 2013 amounted to LTL 14.979 thousand and LTL 12.821 thousand (in 2012 - LTL 11.285 thousand and LTL 9.302 thousand). All the acquisitions above relate to the geographic segment of Lithuania.

6. INVESTMENT ASSETS

Note No 6 – Investment assets (In the statement of financial position)

Changes in the investment assets as of 31 December 2013:

	The Group	The Company
Acquisition cost		
As of 31 December 2011		**9.391**
- acquisition	-	-
- transfers from long-term assets	323	323
As of 31 December 2012	**323**	**9.714**
- acquisition		
- transfers from long-term assets	727	857
As of 31 December 2013	**1.050**	**10.571**

Accumulated depreciation		
As of 31 December 2011		**5.260**
- depreciation	2	199
- transfers from long-term assets	62	62
As of 31 December 2012	**64**	**5.521**
- depreciation	67	281
- transfers from long-term assets	-	14
As of 31 December 2013	**131**	**5.816**
Net book value, LTL thousand:		
As of 31 December 2012	**259**	**4.193**
As of 31 December 2013	**919**	**4.755**

The fair value of investment assets approximates its book value.
The Company's depreciation of the investment assets for the year 2013 amounted to LTL 281 thousand (2012 – LTL 199 thousand).
The Company's investment assets in 2013 and 2012 represents rented assets to ABF Šilutės Rambynas and UAB Čia Market.
All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

7. LOANS GRANTED

Note No 7 – Loans granted (In the statement of financial position) (LTL thousand)

Loans granted as of 31 December 2013:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Loans granted	9.107	7.736	10.945	10.204
Less: current portion of loans granted	(3.572)	(2.836)	(5.410)	(3.466)
Non- current loans granted	**5.535**	**4.900**	**5.535**	**6.738**

All granted loans are in LTL. Granted loan's payback periods are between 1 – 9 years.

8. INVENTORIES

Note No 8 – Inventories (In the statement of financial position) (LTL thousand)

Inventories as of 31 December 2013:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Raw materials	11.770	13.152	9.567	10.369
Finished goods and work in process	114.632	89.425	103.329	84.768
Goods for resale	652	721	652	721
	127.054	**103.298**	**113.548**	**95.858**

Less: write off to net realizable value	(14.334)	(5.624)	(13.718)	(5.624)
Total:	**112.720**	**97.674**	**99.830**	**90.234**

9. TRADE ACCOUNTS RECEIVABLE

Note No 9 – Trade Accounts Receivable (In the statement of financial position)

Trade accounts receivable as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Trade accounts receivable	28.069	30.369	26.462	29.680
Accounts receivable from related parties	2.023	3.479	6.426	3.231
	30.092	**33.848**	**32.888**	**32.911**
Mi Impairment allowance for bad debts	(326)	(864)	(326)	(864)
Impairment allowance for bad debts of related parties	(867)	(5)	(867)	(5)
Net trade receivables:	**28.899**	**32.978**	**31.695**	**32.042**

Changes in impairment loss for bad debts for 2013 are included into operating expenses in the statement of comprehensive income.

Changes in the allowance for impairment of trade accounts receivable:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Balance at beginning of year	869	83	869	83
Impairment allowance for bad debts	324	786	324	786
Balance at end of year	**1.193**	**869**	**1.193**	**869**

Amount receivable impairment losses recognised after the delay of 120 days or more.

Analysis of trade receivables based on the terms of payment on the 31st December, 2013

		Trade accounts receivables which period has passed			
The Group LTL thousand	**Trade accounts receivables, which period has not passed**	**Less than 60 days**	**60-120 days**	**More than 120 days**	**Total**
Trade account receivables	26.465	1.648	786	1.193	**30.092**
Reduction of value	-	-	-	(1.193)	**(1.193)**

		Trade accounts receivables which period has passed			
The Company LTL thousand	**Trade accounts receivables, which period has not passed**	**Less than 60 days**	**60-120 days**	**More than 120 days**	**Total**
Trade account receivables	29.268	1.641	786	1.193	**32.888**
Reduction of value	-	-	-	(1.193)	**(1.193)**

10. OTHER ACCOUNTS RECEIVABLE

Note No 10 – Other accounts receivable (In the statement of financial position)

Other accounts receivables as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Grants receivable	216	-	-	-
Current portion of long-term loans granted	3.572	2.836	5.410	3.466
VAT receivable	1.421	2.683	844	2.683
Other receivables	81	1.323	69	41
Total:	**5.290**	**6.842**	**6.323**	**6.190**

11. CASH AND CASH EQUIVALENTS

Note No 11 – Cach and cash equivalents (In the statement of financial position)

Cash and cash equivalents as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Cash at bank	6.712	5.685	4.914	5.328
Cash on hand	246	104	239	99
Total:	**6.958**	**5.789**	**5.153**	**5.427**

12. CAPITAL AND RESERVES

Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of LTL 1 each, and the total share capital is LTL 48.375.000, fully paid. During the extraordinary shareholder's meeting on 8 February 2008, the decision was made to change the par value of the Company's shares from LTL 10 per share to LTL 1 per share and to replace each share held by shareholders by 10 shares accordingly.

The holders of the ordinary shares are entitled to one vote per fully paid share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital as well as other interest and non-interest as per the Company Law of the Republic of Lithuania as well as other statutes and legal acts.

On 31 December 2012 the Company acquired 1.360.010 of own shares, which constitutes 2.81% of the total shares. During year ended as of 31 December 2013 the Company acquired additionally 710.611 of own shares and in total on 31 December 2013 Company owned 4.28% of shares in total. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the retained earnings available for distribution are required until legal reserve and the share premium reach 10% of the authorised capital. This reserve cannot be distributed. It can be used only for covering accumulated losses. Legal reserve of the Company was fully formed.

Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to use should be restored to retained earnings and redistributed.

The reserve of LTL 15 million for the purchase of own shares was formed through the allocation of profits of year 2009 and 2010. During the meeting of the shareholders on 26 April 2013 was approved the reserve for the bonuses in the amount of LTL 764 thousand.

13. GOVERMENTAL GRANTS RECEIVED

Note No 13 – Grants received (In the statement of financial position)

Changes in the grants received by the Group and the Company (LTL thousand):

	The Group	The Company
Grants received		
As of 31 December 2011 (balance)	**17.409**	**12.389**
- received	3.044	1.483
As of 31 December 2012 (balance)	**20.453**	**13.872**
- received	2.403	2.403
As of 31 December 2013 (balance)	**22.856**	**16.275**
Accumulated amortisation		
As of 31 December 2011 (balance)	**15.162**	**11.569**
- amortization	902	558
As of 31 December 2012 (balance)	**16.064**	**12.127**
- amortization	864	515
As of 31 December 2013 (balance)	**16.928**	**12.642**
Net book value		
As of 31 December 2012	**4.389**	**1.744**
As of 31 December 2013	**5.929**	**3.632**

The amounts of the grant received are amortized in equal parts within the respective useful service life of the asset acquired from these funds. Grant amortisation is included in the statement of comprehensive income, the paragraphs on sales cost, and reduces depreciation costs of non-current assets.

In March 2010 the grant of LTL 684 thousand was received for the implementation of a project "Increasing the Competitiveness of AB "Žemaitijos Pienas" by Introducing Innovative Production Processes" under the 2007-2013 Lithuanian Rural Development Programme measure "Processing of Agricultural Products and Increasing of Added Value".

AB "Žemaitijos Pienas" consistently seeks to improve the quality of its products, ensure compliance with environmental regulations, and remain one of the leaders in the dairy production and sales markets. Therefore, the company makes investments from its own funds and uses assistance of EU Structural Funds. In 2011, the Company completed the second stage of the project "Increasing the Competitiveness of AB "Žemaitijos Pienas" by Introducing Innovative Production Processes" under the 2007-2013 Lithuanian Rural Development Programme measure "Processing of Agricultural Products and Increasing the Value Added". The investments totalled about LTL 10.2 million and resulted in the replacement of equipment, improvement of product quality, and increase in energy efficiency. After the completion of this stage of the project, depreciated equipment was replaced by the modern one, the quality of the produced food products has increased, and energy resources have been used efficiently. In 2011, 20% of the compensated amount (LTL 547 thousands) was received for the first completed stage of this project. In 2012, 20% of the compensated amount (LTL 1.483 thousand) was transferred to the Company for the completed 2nd stage of this project.

In the year of 2013 AB „Žemaitijos pienas" signed a financing agreement with Lithuanian business support agency regarding the EU aid for the construction of 10 MW wood fuel steam boiler in Telsiai. The purpose of the steam boiler for the company is a possibly more effective and modern heating, using relatively cheaper fuel than fossilized, i.e. wood. For the implementation of the project, it is designated about LTL 11.6 million. The level of the support reaches 50 % of the designated funds. In 2013 the company received LTL 2.403 thousand of the compensated funds by the aid.

On 31 December 2012, the residual value of all of the Company's received grants constituted LTL 3.632 thousand (on 31 December 2012 it constituted LTL 1.744 thousand).

On 5 July 2005, ABF "Šilutės Rambynas" has signed a financing agreement with the Lithuanian Environmental Investment Fund on a support of LTL 300 thousand. The support was intended for ABF "Šilutės Rambynas" boiler house reconstruction, during which the fuel used in the boiler house was to be replaced from fuel oil to liquefied gas. The amount of the support cannot exceed 70% of the total value of the reconstruction project. Boiler house reconstruction was completed in December 2005; therefore grant amount has started to being amortized since 1 January 2006 over the 8 year period. On 24 January, 2006 ABF "Šilutės Rambynas" has signed a financing agreement with the National Paying Agency under the Ministry of Agriculture on a support of LTL 3.395 thousand. The support was intended for ABF "Šilutės Rambynas" milk processing production modernization by acquiring new vehicles and equipment. ABF "Šilutės Rambynas" has acquired new equipment in June and July 2006, therefore grant amount has started to being amortized since the next month after the acquisition of the equipment over a 5 year period. The grant was paid to ABF "Šilutės Rambynas" on 31 January 2007.

In April 2012, ABF "Šilutės Rambynas" has signed support agreement for the first sphere of the activity "Processing and marketing of agricultural products" of the Rural Development Programme for Lithuania 2007-2013 instrument "Agricultural products processing and increasing the surplus value", according to which LTL 1.561 thousand support was received for the Company's milk processing efficiency advance and technical condition modernization project. Upon the completion of the 1st stage of the project, in September 2012, the Company has received LTL 934 thousand of the support amount. LTL 410 thousand of the support amount is for the 2nd stage (the due date of implementation is 31 March 2013), LTL 216 thousand of the support amount is for the 3nd stage (the due date of implementation is 31 March 2014).

On 31 December 2013, the total residue of ABF "Šilutės Rambynas" grants was LTL 2.296 thousand (on 31 December 2012 it was LTL 2.645 thousand).

14. BORROWINGS

Note No 14 – Borrowings (In the statement of financial position)

The Group's borrowing as of 31 December 2013:

The Group	Contract date	Maturity date	Currency	Balance (LTL thousand) 31 12 2013	31 12 2012
AB DnB NORD bankas	2004 05	2014 06	EUR	-	-
AB DnB NORD bankas	2006 06	2013 04	EUR	-	417
AB SEB bankas	2011 09	2013 09	EUR	-	11.939
AB SEB bankas	2011 11	2014 11	LTL	-	-
Algirdas Pažemeckas	2011 10	2014 12	LTL	1.568	1.578
Total:				**1.568**	**13.934**
Less: short-term borrowings				-	-
Less: current portion of long-term borrowing				(1.568)	(13.934)
Total long-term borrowings				-	-

The Company's borrowing as of 31 December 2013:

The Company	Contrac t date	Maturity date	Currency	Balance (LTL thousand) 31 12 2013	31 12 2013
AB DnB NORD bankas	2004 05	2014 06	EUR	-	-
AB DnB NORD bankas	2006 06	2013 04	EUR	-	417
AB SEB bankas	2011 09	2013 09	EUR	-	11.939
AB SEB bankas	2011 11	2014 11	LTL		-
Algirdas Pažemeckas	2011 10	2014 12	LTL	1.568	1.578
Total:				**1.568**	**13.934**
Less: short-term borrowings				-	-
Less: current portion of long-term borrowing				(1.568)	(13.934)
Total long-term borrowings				-	-

Terms of repayment of borrowings to the Group and the Company (LTL thousand):

	The Group 31 12 2013	31 12 2012	The Company 31 12 2013	31 12 2012
Within one year	1.568	13.934	1.568	13.934

In the second year	-	-	-	-
In the third year	-	-	-	-
In the fourth and thereafter	-	-	-	-
Total:	**1.568**	**13.934**	**1.568**	**13.934**

Parts of borrowings of the Group and the Company in national and foreign currencies:

	The Group		The Company	
	31 12 2013	**31 12 2012**	**31 12 2013**	**31 12 2012**
EUR	-	12.356	-	12.356
LTL	1.568	1.578	1.568	1.578
Total:	**1.568**	**13.934**	**1.568**	**13.934**

15. OBLIGATIONS UNDER FINANCE LEASE

Note No 15 – Obligations under Finance lease (In the statement of financial position)

The Group's and the Company's obligations under finance lease (LTL thousand):

	31 12 2013		31 12 2012	
The Group	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	433	426	2.484	2.457
In the second to fifth years inclusive	374	370	807	796
Minimum lease payments	**807**	**796**	**3.291**	**3.253**
Less: future interest	(11)		(38)	
Present value of minimum lease payments	**796**		**3.253**	

	31 12 2013		31 12 2012	
The Company	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	433	426	2.237	2.211
In the second to fifth years inclusive	374	370	807	796
Minimum lease payments	**807**	**796**	**3.044**	**3.007**
Less: future interest	(11)		(37)	
Present value of minimum lease payments	**796**		**3.007**	

As of 31 December 2013 and 2012, the Group's and the Company's finance lease agreements were in EUR.

16. OPERATING LEASE

Note No 16 – Operating lease (In the statement of financial position)

Future operating lease payments according to the signed operating lease contracts are as follows (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Within one year	3.751	4.221	3.751	4.221
In the second to fifth years	3.792	4.267	3.792	4.267
After five years	-	-	-	-
Total:	**7.543**	**8.488**	**7.543**	**8.488**

The currency of the payment of operating lease is Litas (LTL).

17. PAYABLES

Note No 17 – Trade payables (In the statement of financial position) (LTL thousand)

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Payables to suppliers	29.444	25.164	28.186	23.486
Payables to related parties	1.789	1.787	1.211	1.782
Prepayments	329	332	329	332
Total:	**31.562**	**27.283**	**29.726**	**25.600**

Trade payables are non-interest bearing and are normally settled on 30-day terms.

18. OTHER LIABILITIES

Note No 18 – Other liabilities (In the statement of financial position)

Other liabilities as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Accrued expenses	484	3.264	484	3.264
Holiday reserve	7.986	7.969	7.386	7.326
Wages and salaries payable	2.230	2.279	1.951	2.022
Social security payable	1.544	1.450	1.372	1.279
Taxes payable, other than income tax	490	658	419	389
Provisions	1.077	925	27	25
Other current liabilities	1.431	494	1.431	494
Total:	**15.242**	**17.039**	**13.070**	**14.799**

Provisions are formed for court cases and compensation.
Other payables are non-interest bearing and have an average term of one month.

19. INFORMATION ON SEGMENTS

Note No 19 – Sales (In the statemet of comprehensive income)

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading (prime segment):

The Group	**Turnover, LTL thousand**		
	Jan-Dec 2013	**Jan-Dec 2012**	**Variation in % As comparing 2013 with 2012**
Fermented cheese	245.096	218.357	**12%**
Fresh dairy products	147.972	154.419	**-4%**
Butter and spreadable fat mixes	42.798	43.128	**-1%**
Dry dairy products	37.078	33.181	**12%**
Ice cream	72	70	**3%**
Other	56.169	51.360	**9%**
Total:	**529.185**	**500.515**	**5,73%**

The Company	**Turnover, LTL thousand**		
	Jan-Dec 2013	**Jan-Dec 2012**	**Variation in % As comparing 2013 with 2012**
Fermentted cheese	227.196	208.725	**9%**
Fresh dairy products	147.972	154.391	**-4%**
Butter and spreadable fat mixes	42.798	43.128	**-1%**
Dry dairy products	37.078	33.181	**12%**
Ice cream	72	70	**3%**
Other	67.667	50.164	**35%**
Total:	**522.783**	**489.659**	**6,76%**

In order to better planning, organise and control of sales, employees of the Marketing and Sales Division are assigned different geographic regions according to the location of final market of the products' sale (secondary segmentation). Information on income received in different geographical markets (secondary segment) is provided below:

	The Group		**The Company**	
	Jan-Dec 2013	**Jan-Dec 2012**	**Jan-Dec 2013**	**Jan-Dec 2012**
Sales, LTL thousand:				
Lithuania	272.304	272.778	277.550	266.014
Other Baltic States and CIS members	141.132	128.260	134.476	125.700
Other Europe countries	110.919	94.746	107.804	94.746
Other	4.830	4.731	2.953	3.199
Total, LTL thousand:	**529.185**	**500.515**	**522.783**	**489.659**

During the year of 2013 sales income from each customer did not constitute more than 10% of the total income.

20. OPERATING EXPENSES

Note No 20 – Operating expenses (In the statement of comprehensive income)

As of 31 December operating expenses consisted of the following:

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Wages, salaries and social security*	30.115	29.063	29.529	28.562
Services	14.112	13.980	13.495	13.650
Marketing	9.407	13.529	9.407	13.452
Fuel and spare parts	5.674	5.735	5.552	5.615
Depreciation and amortisation	2.921	2.456	2.877	2.413
Change in write off of inventoriews to net realizable value	9.203	(1.307)	8.587	(1.345)
Materials	1.364	1.929	1.331	1.835
Taxes, other than income tax	749	597	668	597
Other expenses	1.266	1.067	977	898
Total sales and distribution expenses:	**74.811**	**67.050**	**72.423**	**65.677**

* A share of these expenditure is accounted as the production costs.

21. INCOME AND EXPENSES OF OTHER ACTIVITIES

Note No 21 – Other operating income and expenses (In the statemet of comprehensive income)

Income and expenses from other activities as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2013	Jan-Dec 2013	Jan-Dec 2013
Other operating income				
Gain on sales of property, plant and equipment and goods for resale sales income	1.207	1.219	1.633	3.641
Rental income	593	1.178	1.341	1.333
Income of the canteen	1.188	574	1.188	574
Other	714	-	993	829
	3.702	**2.971**	**5.155**	**6.377**
Other operating expenses				
Cost of goods for resale sold	(1.162)	(3.532)	(1.095)	(3.171)
Rental income	(501)	(540)	(341)	(264)
Other	(986)	(611)	(986)	(610)
	(2.649)	**(4.682)**	**(2.422)**	**(4.045)**
Net income and expenses of other activities:	**1.053**	**(1.711)**	**2.733**	**2.332**

22. FINANCIAL INCOME AND EXPENSES

Note No 22 – Financial income and expenses (In the statemet of comprehensive income)

Income and expenses from financial activities as of 31 December 2013 (LTL thousand):

	The Group		The Company	
	Jan-Dec 2013	**Jan-Dec 2012**	**Jan-Dec 2013**	**Jan-Dec 2012**
Income from financial activity				
Interest income	51	365	51	452
Foreign currency exchange (profit)	160	132	160	132
Other financial incomes	467	89	506	55
	678	**586**	**717**	**639**
Expenses from financial activity				
Foreign currency exchange (loss)	(296)	(186)	(271)	(154)
Interest	(88)	(587)	(87)	(619)
Other financial expenses	(37)	(127)	-	-
	(421)	**(900)**	**(358)**	**(773)**
Net of financial income and expenses:	**257**	**(315)**	**359**	**(134)**

23. CORPORATE INCOME TAX EXPENSES (BENEFIT)

Note No 23 – Corporate income tax expenses (In the statemet of comprehensive income)

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
Profit before tax	27.130	27.195	22.623	25.173
Income tax, applying valid tax rate	5.134	2.938	4.420	2.913
Change in deferred income tax asset	(1.356)	138	(1.268)	138
Change in deferred income tax liability	120	105	-	-
Income tax expenses (benefit) charged to the statement of comprehensive income, LTL thousand	**3.898**	**3.181**	**3.152**	**3.051**

	The Group		The Company	
	31 12 2013	**31 12 2012**	**31 12 2013**	**31 12 2012**
Deferred income tax asset				
Tax loss carry forward	-	-	-	-
Inventories	2.150	844	2.058	844
Accrued vacation reserve	1.130	1.122	1.108	1.099
Other accrued expenses	225	183	200	155

Total deferred income tax asset, LTL thousand	**3.505**	**2.149**	**3.366**	**2.098**
Deferred income tax liability				
Difference in property, plant and equipment depretiation rates	(1.203)	(1.083)	-	-
Total deferred income tax liability, LTL thousand	**(1.203)**	**(1.083)**	**-**	**-**
Deferred income tax asset, net LTL thousand	**2.302**	**1.066**	**3.366**	**2.098**

24. ACQUISITION AND WRITE-OFFS OF SUBSIDIARIES

During the compilation of the set of consolidated financial statements as of 31 December 2012, liquidation of the subsidiary company ŽUK "Tarpučių pienas", which took place on 31 January 2013, was taken into account and the results were represented in financial statements.

25. EARNINGS PER SHARE

Note No 25 - Basic and diluted earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing the net profit attributable to shareholders by weighted average number of ordinary shares in issue during the year.

	The Group		**The Company**	
	Jan-Dec 2013	**Jan-Dec 2012**	**Jan-Dec 2013**	**Jan-Dec 2012**
Net profit (loss) attributable to the equity shareholders in LTL thousand	22.774	23.784	19.471	22.122
Weighted average number of shares (in thousand)	48.375	48.375	48.375	48.375
Basic earnings (loss) per share inLTL	**0,47**	**0,49**	**0,40**	**0,46**

The Company has not issued other securities potentially convertible into shares. Therefore, the diluted earnings (loss) per share are the same as the basic earnings (loss) per share.

26. DIVIDENDS PER SHARE

	The Group		**The Company**	
	Jan-Dec 2013	**Jan-Dec 2012**	**Jan-Dec 2013**	**Jan-Dec 2012**
Dividends	2.315	-	2.315	-
Number of shares (thousand)	48.375	48.375	48.375	48.375
Dividends per share (in LTL)	**0,05**	**0,00**	**0,05**	**0,00**

27. COMMITMENTS AND CONTINGENCIES

As of 31 December 2013 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.
At of 31 December 2013 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.

28. FINANCIAL RISK MANAGEMENT

In the course of using financial instruments, the Company and the Group face the following risks:

- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

The present note provides for information on each of the aforementioned risks the Company faces, the Company's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's capital management. More detailed quantitative disclosures are presented in the present interim statement.

The Company's management is completely responsible for development and supervision of the Company's risk management structure. The Company's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's activities. With the help of trainings, procedures of management standards, the Company aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

The Company's and the Group's credit risk consisted of the following factors:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Cash and cash equivalents	6.958	5.789	5.153	5.427
Loans granted	5.535	4.900	5.535	6.738
Trade accounts receivable	28.899	32.978	31.695	32.042
Other accounts receivable	5.290	6.842	6.323	6.190
Term deposits	-	-	-	-
Total financial assets	**46.682**	**50.509**	**48.706**	**50.397**

The Group and the Company has no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. Customers' risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of receivables (Note 9), net of impairment losses recognized at the financial statements date.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that, upon maturity, the Company will be unable to fulfil its financial liabilities. The Company's liquidity management objective is to maximally secure sufficient liquidity of the Company, which enables the Company to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of losing its good reputation.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities, bank overdrafts and credit lines to meet its commitments at a given date in accordance with its strategic plans.

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments.

The Group	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	1.736	12.199	-	-	13.934
Interest bearing finance lease liabilities	-	924	1.533	796	-	3.253
Trade payables and prepayments	-	25.273	223	-	-	25.496
Commitments to related parties	-	1.788	-	-	-	1.788
Balance as of 31 December 2012	-	**29.720**	**13.955**	**796**	-	**44.471**
Interest bearing loans and borrowings	-	-	1.568	-	-	1.568
Interest bearing finance lease liabilities	-	206	220	370	-	796
Trade payables and prepayments	-	30.119	145	-	-	30.264
Commitments to related parties	-	1.298	-	-	-	1.298
Balance as of 31 December 2013	-	**31.623**	**1.933**	**370**	-	**33.926**
Changes throught 2013	-	**1.903**	**(12.022)**	**(426)**	-	**(10.545)**

The Company	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	1.578	12.356	-	-	13.934
Interest bearing finance lease liabilities	-	833	1.378	796	-	3.007
Trade payables and prepayments	-	23.594	223	-	-	23.817
Commitments to related parties	-	1.783	-	-	-	1.783
Balance as of 31 December 2012	-	**27.788**	**13.957**	**796**	-	**42.541**
Interest bearing loans and borrowings	-	-	1.568	-	-	1.568
Interest bearing finance lease liabilities	-	206	220	370	-	796
Trade payables and prepayments	-	28.285	145			28.430
Commitments to related parties	-	1.296				1.296
Balance as of 31 December 2013	-	**29.787**	**1.933**	**370**	-	**32.090**
Changes throught 2013	-	**1.999**	**(12.024)**	**(426)**	-	**(10.451)**

Market risk

Market risk is the risk that market price changes, e.g. foreign exchange rates or interest rates, will affect the Company's income or the value of available financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimisation of the return.

Foreign exchange risk

Major currency risks of the Group and Company occur due to the fact that the Group and Company borrow foreign currency denominated funds as well as are involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged.

The monetary assets and liabilities stated in various currencies were as follows (LTL thousand):

	The Group		The Company	
	31 12 2013		31 12 2013	
	Assets	Liabilities	Assets	Liabilities
LTL	39.689	47.706	44.163	42.691
EUR	8.417	5.402	5.798	5.206
USD	21	-	21	-
LVL	3.560	131	3.560	131
Other	13	38	13	38
Total:	**51.700**	**53.277**	**53.555**	**48.066**

	The Group		The Company	
	31 12 2012		31 12 2012	
	Assets	Liabilities	Assets	Liabilities
LTL	40.346	43.894	40.714	39.213
EUR	10.255	17.869	9.680	17.300
USD	29	-	29	-
LVL	3.767	897	3.767	897
Other	1	9	2	8
Total:	**54.398**	**62.669**	**54.192**	**57.418**

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and EUR. Therefore, the sensitivity analysis to the foreign currency fluctuations was not disclosed due to immateriality of the balances and transactions in currencies other than LTL and EUR.

Fair value of financial instruments

Fair value is defines as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties at market prices but not in forced or liquidation sale. Depending on circumstances, fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Fair value of assets and liabilities provided in the balance sheet as of the 31st December 2013 does not significantly differ from their carrying amount.

Financial assets and liabilities as of the 31th of December 2013:

The Group	Carrying amount		Fair value	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Financial assets				
Cash	6.958	5.789	6.958	5.789
Term deposits	-	-	-	-
Investments available for sale	-	-	-	-
Loans granted	5.535	4.900	5.535	4.900
Total:	**12.493**	**10.689**	**12.493**	**10.689**
Financial liabilities				
Interest bearing loans and borrowings:	-	-		-
Obligations under finance lease and hired purchase contracts	(796)	(3.253)	(807)	(3.289)
Floating interest rate borrowings	-	(12.356)	-	(12.356)
Fixed interest rate borrowings	(1.568)	(1.578)	(1.568)	(1.578)
Total:	**(2.364)**	**(17.187)**	**(2.375)**	**(17.223)**
Net total:	**10.129**	**(6.498)**	**10.118**	**(6.534)**

The Company	Carrying amount		Fair value	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Financial assets				
Cash	5.153	5.427	5.153	5.427
Term deposits	-	-	-	-
Investments available for sale	-	-	-	-
Loans granted	5.535	6.738	5.535	6.738
Total:	**10.688**	**12.165**	**10.688**	**12.165**
Financial liabilities				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	(796)	(3.007)	(807)	(3.044)
Floating interest rate borrowings	-	(12.356)	-	(12.356)
Fixed interest rate borrowings	(1.568)	(1.578)	(1.568)	(1.578)
Total:	**(2.364)**	**(16.941)**	**(2.375)**	**(16.978)**
Net total:	**8.324**	**(4.776)**	**8.313**	**(4.813)**

Capital management

The objective of the Group's and the Company's management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The management observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans. The primary objectives of the capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2013.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Group and the Company monitor capital using debt to equity ratio. There is no specific target for debt to equity ratio set out by the Group's and the Company's management, however the management strives for maintaining the balance between higher return, which could be achieved through a higher level of borrowed funds, and safety, which is provided by a higher level of owner's equity.

Current debt to equity ratios presented below:

	The Group		The Company	
	31 12 2013	31 12 2012	31 12 2013	31 12 2012
Non-current liabilities (including deferred taxes and grants)	7.539	6.292	4.039	2.564
Current liabilities	51.667	60.766	47.660	56.598
Total liabilities	**59.206**	**67.058**	**51.698**	**59.162**
Equity attributable to equity holders of the parent	**167.121**	**148.196**	**160.904**	**145.316**
Debt* to equity ratio	**35%**	**45%**	**32%**	**41%**

* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities.

No breaches of required ratio occured during the year ending as of 31 December 2013.

29. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Company are:

- the parties that control, are controlled by or are under common control with the Company;
- the parties that can have material impact on the activities of the Company;
- the parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- the companies that are under control or material impact of the aforesaid persons.

The main related parties of the Group and the Company are:

Company	Relationship
Žemaitijos Pieno Investicija AB	Common major shareholder
Šilutės Rambynas ABF	Subsidiary, common major shareholder
Baltijos Mineralinių Vandenų Kompanija UAB	Common major shareholder
Klaipėdos Pienas AB	Common major shareholder
Čia Market UAB	Common major shareholder
Muižas Piens SIA	Common major shareholder
Samogitija UAB	Common major shareholder

Sales to and purchases from related parties (LTL thousand):

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
1) Sales				
Sales of goods				
To the Group				
Šilutės Rambynas ABF	-	-	82.722	69.002
	-	**-**	**82.722**	**69.002**
To Related parties				
Baltijos mineralinių vandenų kompanija UAB	35	-	35	0
Klaipėdos pienas AB	2.048	1.293	792	425
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	21.370	24.394	21.366	23.395
Muizas piens SIA	6.111	9.410	4.779	8.507
	29.564	**35.097**	**26.971**	**32.328**
Sales of inventory and services				
To the Group				
Tarpučių pienas ŽŪK	-		-	1
Šilutės Rambynas ABF	-	-	1.327	3.752
	-	**-**	**1.327**	**3.753**
To Related parties				
Baltijos mineralinių vandenų kompanija UAB	516	1.529	516	1.529
Klaipėdos pienas AB	1.422	1.832	1.422	1.832
Žemaitijos pieno investicija AB	146	139	146	139
Samogitija UAB	2	6	2	6
Čia Market UAB	260	654	245	642
Muizas piens SIA	39	90	39	90
	2.385	*4.250*	*2.370*	*4.239*
Total Sales:	**31.949**	**39.347**	**113.390**	**109.322**

	The Group		The Company	
	Jan-Dec 2013	Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2012
2) Purchases				
From the Group				
Tarpučių pienas ŽŪK	-	-	-	133
Šilutės Rambynas ABF	-	-	88.532	90.727
	-	**-**	**88.532**	**90.860**
From Related parties				
Baltijos mineralinių vandenų kompanija UAB	6.271	2.295	6.271	2.295
Čia Market UAB	730	678	713	662
Klaipėdos pienas AB	2.715	3.958	2.714	3.952
Žemaitijos pieno investicija AB	2.562	2.565	2.556	2.559
SIA "Muizas piens"	104	103	104	103
	12.382	**9.599**	**12.358**	**9.571**
Total Purchases:	**12.382**	**9.599**	**100.890**	**100.431**

Balances outstanding with related parties

	The Group		The Company	
	31 12 2013	**31 12 2012**	**31 12 2013**	**31 12 2012**
3) Accounts recievable and financial debts				
From Group				
Šilutės Rambynas ABF	-	-	6.311	2.468
	-	-	**6.311**	**2.468**
From Related parties				
Baltijos mineralinių vandenų kompanija UAB				
Samogitija UAB	70	78	70	78
Čia Market UAB	192	947	192	947
Klaipėdos pienas AB	70	71	-	-
Žemaitijos pieno investicija AB	2.579	2.477	2.579	2.477
Muizas piens SIA	734	2.358	734	2.265
	3.645	**5.931**	**3.575**	**5.767**
Total balances of recievables:	**3.645**	**5.931**	**9.886**	**8.235**

	The Group		The Company	
	31 12 2013	**31 12 2012**	**31 12 2013**	**31 12 2012**
4) Balances of payables				
To Group				
Tarpučių pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	-	-	807
	-	-	-	**807**
To Related parties				
Pažemeckas Algirdas	1.568	1.578	1.568	1.578
Baltijos mineralinių vandenų kompanija UAB	897	751	897	751
Žemaitijos pieno investicija UAB	315	224	314	223
Klaipėdos pienas AB	-	-	-	-
Čia Market AB	1	4	-	-
Muizas piens SIA	85	-	85	-
	2.866	2.557	2.864	2.552
Total balances of payables:	**2.866**	**2.557**	**2.864**	**3.359**

Payables to related parties are normally settled within 30 day terms.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. In 2013, the Company have calculated LTL 867 thousand of decrease in distribution value for doubtful accounts, relating to the amounts that belong to the related parties (in 2012 – LTL 5 thousand). Evaluation of these doubtful accounts is being reviewed every financial year, by checking the financial state of the related party and the market, in which the related party is operating. The Group has many transactions with the related parties (the companies in AB "Žemaitijos pieno investicija" group), and Group's profit as well as sales are strongly influenced by the transactions with AB "Žemaitijos pieno investicija" group. It includes rent of fixed assets, raw material sales as well as full buy up of cheeses from ABF "Šilutės Rambynas", sale of distribution services to UAB "Baltijos mineralinių vandenų kompanija" and sales of finished goods to UAB "Čia Market".

EVENTS AFTER THE REPORTING PERIOD

There were no events occurred after the reporting period that would influence financial results of the Group and the Company.

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