ROKIŠKIO SŪRIS AB

CONSOLIDATED AND

PARENT COMPANY'S FINANCIAL STATEMENTS,

ANNUAL REPORT AND

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2008

Translation note

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Rokiškio sūris AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (the "financial statements") of Rokiškio sūris AB (the "Company") and its consolidated subsidiaries (together the "Group") set out in pages 5 – 48 which comprise the stand alone and consolidated balance sheet as at 31 December 2008 and the stand alone and consolidated income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2008, and their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2008 set out on pages 49 - 112 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2008.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
10 April 2009

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

Income statement

The Group				The Company	
Year ended 31 December				Year ended 31 December	
2008	2007		Notes	2008	2007
681,821	664,962	Sales	5	614,828	609,595
(631,520)	(549,020)	Cost of sales		(592,449)	(520,621)
50,301	115,942	**Gross profit**		22,379	88,974
(41,027)	(29,401)	Selling and marketing expenses	6	(19,959)	(15,948)
(25,218)	(40,328)	General and administrative expenses	7	(20,330)	(31,835)
13,257	10,801	Other income	8	13,148	13,570
(12,216)	(8,623)	Other expenses	9	(12,231)	(11,808)
(92)	394	Other operating (losses)/gains - net	10	(76)	383
(14,995)	48,785	**Operating (loss) / profit**		(17,069)	43,336
(6,008)	(2,278)	Finance costs	12	(5,996)	(2,275)
(21,003)	46,507	**(Loss) / profit before tax**		(23,065)	41,061
2,676	(12,269)	Income tax	13	3,148	(10,462)
(18,327)	34,238	**Net (loss) / profit**		(19,917)	30,599
		Attributable to:			
(18,286)	34,238	Equity holders of the Company		(19,917)	30,599
(41)	-	Minority interest		-	-
(18,327)	34,238			(19,917)	30,599
(0,45)	0,81	**Diluted and basics earnings / (loss) per share (LTL per share)**	14	(0,49)	0,72

The notes on pages 10 to 48 are an integral part of these financial statements.

The financial statements on pages 5 to 48 have been approved for issue by the Board of Directors as at 10 April 2009 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
Director

Antanas Kavaliauskas
Chief Financial Officer

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

Balance sheet

The Group				The Company	
As at 31 December				As at 31 December	
2008	2007		Notes	2008	2007
		ASSETS			
		Non-current assets			
129,206	113,451	Property, plant and equipment	15	98,847	86,950
2,420	3,815	Intangible assets	16	318	341
1,186	1,186	Investments into subsidiaries	17	29,773	33,220
4,272	1,590	Deferred income tax asset	18	4,785	1,590
27,202	15,336	Loans granted	19	27,064	15,336
955	3,840	Other receivables	21	955	3,730
165,241	139,218			161,742	141,167
		Current assets			
87,223	104,195	Inventories	20	80,151	99,378
1,723	25,985	Loans granted	19	1,713	25,624
97,587	59,923	Trade and other receivables	21	91,788	55,023
6,273	-	Prepaid Income Tax		5,674	-
3,242	4,623	Cash and cash equivalents	22	2,630	1,041
196,048	194,726			181,956	181,066
361,289	333,944	**Total assets**		343,698	322,233
		EQUITY			
		Attributable to the equity holders of the Company			
42,716	42,716	Share capital	23	42,716	42,716
41,473	41,473	Share premium		41,473	41,473
28,746	14,394	Reserve for acquisition of treasury shares		28,746	14,394
(15,492)	(4,702)	Treasury shares	24	(15,492)	(4,702)
7,074	5,362	Other reserves	25	7,074	5,362
68,993	113,245	Retained earnings		63,723	109,606
173,510	212,488			168,240	208,849
273	-	**Minority interest**		-	-
173,783	212,488	**Total equity**		168,240	208,849
		LIABILITIES			
		Non-current liabilities			
8	504	Borrowings	26	-	459
8,445	5,946	Deferred income	27	6,383	4,422
8,453	6,450			6,383	4,881
		Current liabilities			
-	8,413	Income tax liabilities		-	6,584
124,632	36,154	Borrowings	26	124,446	36,034
2,843	2,160	Deferred income	27	2,498	1,949
50,754	67,455	Trade and other payables	28	41,307	63,112
824	824	Provisions	29	824	824
179,053	115,006			169,075	108,503
187,506	121,456	**Total liabilities**		175,458	113,384
361,289	333,944	**Total equity and liabilities**		343,698	322,233

The notes on pages 10 to 48 are an integral part of these financial statements.

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

The Company's statement of changes in equity

	Notes	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2007		**47,462**	**41,473**	**30,000**	**(20,352)**	**69,805**	**24,645**	**193,033**
Net profit for the period		-	-	-	-	-	30,599	30,599
Total recognised income for 2007		**-**	**-**	**-**	**-**	**-**	**30,599**	**30,599**
Acquisition of own shares	24	-	-	-	(4,702)	-	-	(4,702)
Decrease in share capital / cancellation of treasury shares	24	(4,746)	-	(15,606)	20,352	-	-	-
Transfer to legal reserve		-	-	-	-	651	(651)	-
Reallocation of unutilized distributable reserves	25	-	-	-	-	(65,094)	65,094	-
Dividends relating to 2006		-	-	-	-	-	(10,081)	(10,081)
Balance at 31 December 2007		**42,716**	**41,473**	**14,394**	**(4,702)**	**5,362**	**109,606**	**208,849**
Net loss for the period		-	-	-	-	-	(19,917)	(19,917),
Total recognised loss for 2008		**-**	**-**	**-**	**-**	**-**	**(19,917)**	**(19,917)**
Treasury shares acquisition	24				(10,790)	-	-	(10,790)
Transfer to reserves	25	-	-	14,352	-	1,712	(16,064)	-
Dividends relating to 2007		-	-	-	-	-	(9,902)	(9,902)
Balance at 31 December 2008		**42,716**	**41,473**	**28,746**	**(15,492)**	**7,074**	**63,723**	**168,240**

The notes on pages 10 to 48 are an integral part of these financial statements.

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

The Group's statement of changes in equity

		Attributable to equity holders of the Company								
	Notes	**Share capital**	**Share premium**	**Reserve for acquisition of treasury shares**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
Balance at 1 January 2007		**47,462**	**41,473**	**30,000**	**(20,352)**	**69,805**	**24,645**	**193,033**	**-**	**193,033**
Net profit for the period		-	-	-	-	-	34,238	34,238	-	34,238
Total recognised income for 2007		**-**	**-**	**-**	**-**	**-**	**34,238**	**34,238**	**-**	**34,238**
Treasury shares acquisition	24	-	-	-	(4,702)	-	-	(4,702)	-	(4,702)
Decrease in share capital / cancellation of treasury shares	24	(4,746)	-	(15,606)	20,352	-	-	-	-	-
Transfer to legal reserve		-	-	-	-	651	(651)	-	-	-
Reallocation of unutilized distributable reserves	25	-	-	-	-	(65,094)	65,094	-	-	-
Dividends relating to 2006		-	-	-	-	-	(10,081)	(10,081)	-	(10,081)
Balance at 31 December 2007		**42,716**	**41,473**	**14,394**	**(4,702)**	**5,362**	**113,245**	**212,488**	**-**	**212,488**
Acquisition of subsidiaries		-	-	-	-	-	-	-	314	314
Net loss for the period		-	-	-	-	-	(18,286)	(18,286)	(41)	(18,327)
Total recognized loss for 2008		**-**	**-**	**-**	**-**	**-**	**(18,286)**	**(18,286)**	**(41)**	**(18,327)**
Treasury shares acquisition	24	-	-	-	(10,790)	-	-	(10,790)	-	(10,790)
Transfer to reserves	25	-	-	14,352	-	1,712	(16,064)	-	-	-
Dividends relating to 2007		-	-	-	-	-	(9,902)	(9,902)	-	(9,902)
Balance at 31 December 2008		**42,716**	**41,473**	**28,746**	**(15,492)**	**7,074**	**68,993**	**173,510**	**273**	**173,783**

The notes on pages 10 to 48 are an integral part of these financial statements.

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

Cash flow statement

The Group				The Company	
Year ended 31 December				Year ended 31 December	
2008	2007		Notes	2008	2007
		Cash flows from operating activities			
(21,050)	106,606	Cash (used in) / generated from operations	32	(23,938)	99,230
(6,009)	(2,278)	Interest paid		(5,996)	(2,275)
(14,692)	(3,821)	Income tax paid		(12,305)	(3,843)
(41,751)	100,507	Net cash (used in) / generated from operating activities		(42,239)	93,112
		Cash flows from investing activities			
(40,025)	(19,867)	Purchase of property, plant and equipment	15	(34,540)	(15,377)
(229)	(126)	Purchase of intangible assets	16	(229)	(126)
(1,142)	(8,347)	Purchase of investments (for the Group net of cash acquired)	17	(1,509)	(8,409)
(945)	(9,953)	Loans granted to farmers and employees		(945)	(9,753)
(1,221)	(13,270)	Other loans granted		(1,612)	(13,270)
492	2,263	Proceeds from sale of property, plant and equipment		239	1,396
5,645	3,505	Government Grants received		4,665	3,505
216	130	Other loan repayments received		215	129
9,498	3,466	Loan repayments from farmers and employees		9,498	3,466
786	348	Interest received		786	323
(26,925)	(41,851)	Net cash used in investing activities		(23,432)	(38,115)
		Cash flows from financing activities			
(9,902)	(10,081)	Dividends paid		(9,902)	(10,081)
(10,790)	(4,702)	Acquisition of treasury shares	23	(10,790)	(4,702)
206,780	267,226	Proceeds from borrowings		206,745	267,284
(131,625)	(299,066)	Repayments of borrowings		(131,625)	(299,066)
-	(20)	Finance lease principal payments		-	-
54,463	(46,643)	Net cash generated from / (used in) financing activities		54,428	(46,565)
(14,213)	**12,013**	**Net (decrease) increase in cash and cash equivalents**		**(11,243)**	**8,431**
(4,569)	(16,582)	Cash and cash equivalents at beginning of the year	20	(8,151)	(16,582)
(18,782)	**(4,569)**	**Cash and cash equivalents at end of the year**	22	**(19,394)**	**(8,151)**

The notes on pages 10 to 48 are an integral part of these financial statements.

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

Notes to the financial statements

1. General information

Rokiškio Sūris AB (hereinafter "the Company") is a public listed company incorporated in Rokiškis, 160 km North–West from Vilnius, the capital of Lithuania. Company's code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania.

The shares of Rokiškio Sūris AB are traded on the Official List of the National Stock Exchange.

The consolidated Group (hereinafter "the Group") consist of the Company its two branches, eight subsidiaries and one joint venture (2007: two branches and six subsidiaries and one joint venture). The branches and subsidiaries that comprise consolidated Group are indicated below:

Branches	Operating as at 31 December 2008	2007
Utenos Pienas	Yes	Yes
Ukmergės Pieninė	Yes	Yes

Subsidiaries	Group's share (%) as at 31 December 2008	2007
Rokiškio pienas UAB	100.00	100.00
Skeberdis ir partneriai UAB	100.00	100.00
Skirpstas UAB	100.00	100.00
Žalmargė KB	100.00	100.00
*Batėnai UAB **	100.00	100.00
*Pečupė UAB **	100.00	100.00
Europienas UAB	100.00	-
Jekabpils Piena Kombinats SIA	50.05	-
Joint venture		
Pieno upės UAB	50	50

** These subsidiaries were not consolidated due to their insignificance.*

All the above-mentioned branches and subsidiaries, except for Jekabpils Piena Kombinats SIA undertakings are incorporated in Lithuania. Jekabpils Piena Kombinats SIA undertaking is incorporated in Latvia.

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

Average number of Company's employees during the year ended 31 December 2008 was 1,162 people (2007: 1,192 people). Average number of Group's employees during the year ended 31 December 2008 was 1,920 people (2007: 1,738 people).

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

2. Accounting policies

2.1 Basis of preparation

These consolidated and parent company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated and parent's financial statements have been prepared under the historical cost convention.

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

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

Standards, amendments to standards and interpretations effective in 2008, but not relevant to the Company's and Group's operations

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are either not relevant to the Company's and Group's operations or do not have a material effect on the financial statements:

- Amendment to IAS 39, 'Financial instruments: Recognition and measurement', and IFRS 7 'Financial instruments: Disclosures on Reclassification of financial assets'. This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

- IFRIC 12 – Service Consession Arrangements'. The interpretation contains guidance on applying the existing standards by service providers in public-to-private service consession arrangements.

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

Early adoption of standards, interpretations and amendments to published standards

The Group and the Company has not elected to early adopt any new standards, interpretations and amendments to published standards.

Standards, interpretations and amendments to published standards that are not yet effective, endorsed by EU and have not been early adopted by the Company

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's and Group's accounting periods beginning on or after 1 January 2009 or later periods but which the Company and the Group has not early adopted:

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purpose. The Company and the Group will apply IFRS 8 from 1 January 2009.
- IAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from 1 January 2009.
- IAS 23 (Revised), 'Borrowing Costs' including amendment published by IASB in May 2008 as part of annual improvement project (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company and the Group will apply new IAS 23 from 1 January 2009.
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company and the Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any impact on the financial statements.
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's and the Group's operations, because it does not operate any loyalty programmes.

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

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Company and the Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009, but is not expected to have any impact on the financial statements.
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the financial statements.
- On the 23 January 2009, the EU endorsed the Improvements to IFRS standards published in May 2008 which amends 20 existing standards, basis of conclusions and guidance. These improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. Most of these changes are effective for periods beginning or after 1 January 2009. These amendments are not expected to have significant impact on the financial statements.

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

2.2 Consolidated financial statements

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

(c) Joint venture

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

2.3 Stand alone financial statements

Subsidiaries in the stand-alone financial statements are accounted at cost less impairment charge – that is the income from the investment is recognized only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Litas (LTL), which is the Company's (and each of the Group entity's) functional and presentation currency.

Litas is pegged to the Euro at an exchange rate of LTL 3.4528 = EUR 1 from 2 February 2002.

(b) Transactions and balances

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

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

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

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

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

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

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

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

2.6 Intangible assets

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

(b) Contractual Customer relationships
Contractual customer relationships recognized as intangible asset upon business acquisition (Note 31) are accounted for at cost less accumulated amortization and impairment. Contractual customer relationships are amortised on the straight-line basis over the estimated useful life of 2 years.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

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

2.9 Inventories

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

2.10 Loans granted and trade and other amounts receivable

Loans granted and amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of amounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'general and administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.

2.11 Cash and cash equivalents

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

2.12 Share capital

(a) Ordinary shares

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

(b) Treasury shares

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

2.13 Reserves

(a) Other reserves

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

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

(b) Reserve for acquisition of treasury shares

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

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Profit is taxable at a 15 per cent (2007: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

According to the adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 3 per cent for 2007 should be paid on taxable income earned during 2007.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Leases – where the Group is the lessee

(a) Finance lease

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

(b) Operating lease

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

2.17 Employee benefits

(a) Social security contributions

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

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

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

2.18 Revenue recognition

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

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

2.19 Dividend distribution

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

2.20 Earnings per share

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

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

2.21 Segment reporting

The Company's single business segment is production of cheese and other diary products, therefore, information on key business segment is not presented. The Group is organised on a basis of two main business segments: Fresh milk products and Cheese and other diary products. Secondary reporting format – geographical segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.22 Government grants and subsidies

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

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

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

2.23 Provisions

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

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

2.24 Trade payables

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

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

3. Financial risk management

3.1 Financial risk factors

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

Risk management is carried out by Comapny's management. No written principles for overall risk management are prepared.

(a) Market risk

(i) foreign exchange risk
The Group and the Company operates internationally; however, its exposure to foreign exchange risk is set at minimum level, since its sales outside Lithuania are performed mainly in euros. The exchange rate of euro and litas is fixed.

(ii) Cash flow and fair value interest rate risk
The Group's and Company's interest rate risk arises from interest-bearing loans and long-term borrowings issued. Borrowings issued at a variable interest rate expose the Group to cash flow interest rate risk. Loans granted at a fixed interest rate expose the Group to fair value interest rate risk. In 2008 and 2007, loans granted by the Group at a fixed interest rate were denominated in litas. In 2008 and 2007, borrowings issued to the Group at a variable interest rate were denominated in litas and euros.

The Company's and the Group's net interest sensitive liabilities amounted to LTL 105,210 thousand as at 31 December 2008 (31 December 2007: LTL 14,566 thousand). If interest rate increases / decreases by 1 percentage point, the Company's and the Group's loss would increase / decrease by LTL 1,052 thousand (2007: profit would decrease / increase by LTL 146 thousand).

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, mainly related to outstanding receivables and loans granted.

As at 31 December 2008 all Company's and Group's cash balances held in banks that had external credit ratings from 'B+' to 'A', as set by international Fitch Ratings agency (assessed in accordance with long-term borrowing ratings) (31 December 2007: 'A', or higher).

i) Maximum exposure to credit risk
The table below summarizes all balance sheet items that are related to credit risk. Maximum exposure to credit risk before collateral held or other credit enhancements as at 31 December:

The Group			The Company	
2008	**2007**		**2008**	**2007**
2,819	4,290	Cash and cash equivalents within the banks	2,274	753
93,587	53,945	Trade receivables	89,460	48,875
28,925	41,158	Loans granted	28,777	40,958
11,227	9,982	Other amounts receivables	8,956	9,880
136,558	**109,375**		**129,467**	**100,466**

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

ii) Credit quality of financial assets

The Group's management does not classify amounts receivables and other financial assets that are exposed to credit risk based on quality of the credit. Credit risk is managed through established credit limits for a major customers and monitoring of overdue receivables. Analysis of overdue receivables and credit limits is regularly monitored by management.

Credit limits and receivables as at 31 December 2008 for the major 9 customers are summarized below.

The Group			The Company	
Credit limit	Receivables		Credit limit	Receivables
12,000	7,839	Customer A	12,000	7,839
9,000	7,207	Customer B	9,000	7,207
6,244	5,153	Customer C	6,244	5,153
4,700	4,542	Customer D	4,700	4,542
5,240	4,307	Customer E	5,240	4,307
3,800	3,843	Customer F	3,800	3,843
16,500	13,970	Customer G	-	-
8,940	3,988	Customer H	-	-
4,000	2,577	Customer I	-	-

Credit limits and receivables as at 31 December 2007 for the major 9 customers are summarized below.

The Group			The Company	
Credit limit	Receivables		Credit limit	Receivables
16,000	9,899	Customer B	16,000	9,899
8,715	9,167	Customer G	-	-
4,000	3,321	Customer Y	4,000	3,321
3,000	1,258	Customer J	3,000	1,258
2,200	1,188	Customer K	2,200	1,188
3,452	2,762	Customer F	3,452	2,762
3,578	3,617	Customer H	-	-
2,600	833	Customer L	2,600	833
2,600	738	Customer M	2,600	738

No credit limits were significantly exceeded during the reporting period.

The table below summaries concentration of the loans granted:

The Group			The Company	
2008	2007		2008	2007
18,332	25,545	Loans granted for amount of above LTL 2 million	18,332	25,545
2,600	3,691	Loans granted for amount above LTL 1 million but not more than LTL 2 million	2,600	3,691
7,993	12,085	Loans granted for amount less than LTL 1 million	7,845	11,724
28,925	41,321		28,777	40,960

All loans granted for amount of above LTL 1 million comprise loan granted to related parties (Note 33). The loans granted for amount of above LTL 2 million comprise one loan granted to related party (Note 33).

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

(c) Liquidity risk

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

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Accounts payable and other financial liabilities due within 3 months or less are equal to their carrying balances as the impact of discounting is insignificant.

The Company

31 December 2008	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**After 5 years**
Bank loans	63,580	63,662	-	-
Trade payables	36,846	-	-	-
	100,426	**63,662**	**-**	**-**

31 December 2007	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**After 5 years**
Bank loans	-	37,000	461	-
Trade payables	49,843	-	-	-
Other financial liabilities	562	-	-	-
	50,405	**37,000**	**461**	**-**

The Group

31 December 2008	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**After 5 years**
Bank loans	63,580	63,857	8	-
Trade payables	43,696	-	-	-
	107,276	**63,857**	**8**	**-**

31 December 2007	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**After 5 years**
Bank loans	-	37,126	509	-
Trade payables	52,176	-	-	-
Other financial liabilities	562	-	-	-
	52,738	**37,126**	**509**	**-**

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

3.2. Capital risk management

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

The Group and the Company defines its capital as equity and debt less cash and cash equivalents.

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
124,640	36,658	Total borrowings	124,446	36,493
(3,242)	(4,623)	Less: cash and cash equivalents	(2,630)	(1,041)
121,398	32,035	Net debt	121,816	35,452
173,783	212,488	Total Equity	168,240	208,849
295,181	244,523	Total capital	290,056	244,301

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100,000 (private limited liability company must be not less than LTL 10,000) and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2008and 31 December 2007 the Company and Group complied with these requirements.

3.3. Fair value estimation

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

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

4. Critical accounting estimates and judgments

Impairment provision for accounts receivable

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

Estimates of useful lives of property, plant and equipment

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

Contractual client relationship

In 2007 and in 2008 the Company acquired several milk collecting intermediary companies. On acquisition of these companies (as disclosed in note 31) the Group recognized costumer relationship intangibles (note 16). Milk collecting business is a very competitive where contracts with farmers are normally signed for 1 year period only. The Group estimates that the average customer relationship period is 2 years; however actual duration of the relationship may differ from currently estimated.

Recent volatility in global and Lithuanian financial markets

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's and the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's and the Company's business in the current circumstances.

Debtors of the Group and the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

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

5. Segment reporting

Primary reporting format – business segments

The Company's single business segment is production of cheese and other diary products.

The Group is organised on a basis of two main business segments:

- Fresh milk products
- Cheese and other diary products

Other operations of the Group mainly comprise of milk collecting activity which is not of a sufficient size to be reported separately. Transactions between the business segments are on normal commercial terms and conditions.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

	Fresh diary products	Cheese and other diary products	Other	Group
2008				
Sales – external	256,933	420,441	4,447	681,821
Sales to other segments	(176,280)	130,127	46,153	-
Total revenue				**681,821**
Segment operating profit (loss)	**9,959**	**(19,438)**	**361**	**(9,118)**
Unallocated operating loss				**(5,877)**
Finance costs (Note 12)				(6,008)
Profit before income tax				**(21,003)**
Income tax expense				2,676
Profit /(loss) for the year				**(18,327)**
Total segment assets	**64,047**	**289,728**	**5,404**	**359,179**
Other unallocated assets				2,110
Total assets				**361,289**
Total segment liabilities	**10,139**	**172,653**	**4,490**	**187,282**
Other unallocated liabilities				**224**
Capital expenditure	6,051	33,879	362	40,292
Depreciation and amortisation	2,316	22,286	364	24,966
Unallocated depreciation and amortization				2,814

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

	Fresh diary products	Cheese and other diary products	Other	Group
2007				
Sales – external	185,387	474,919	4,656	664,962
Sales to other segments	(125,575)	106,565	19,010	-
Total revenue				664,962
Segment result / Operating profit	**7,612**	**43,475**	**(2,302)**	**48,785**
Finance costs (Note 12)	-	-	-	(2,278)
Profit before income tax				46,507
Income tax expense	-	-	-	(12,269)
Profit /(loss) for the year				34,238
Total segment assets	**28,525**	**298,823**	**1,936**	**329,284**
Other unallocated assets	-	-	-	4,660
Total assets				**333,944**
Total segment liabilities	**10,713**	**110,489**	**304**	**121,506**
Capital expenditure	5,565	13,853	67	19,576
Depreciation and amortisation	2,275	22,637	73	24,985

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Lithuania	209,723	161,820	343,698	322,233	34,579	15,213
Europe Union countries	298,498	282,707	-	-	-	-
Other	106,607	165,068	-	-	-	-
	614,828	609,595	343,698	322,233	34,579	15,213

The Group's assets detailed by geographical segments are detailed below. The Group's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Lithuania	258,852	210,911	358,192	333,944	39,995	19,702
Europe Union countries	316,362	288,983	3,097	-	68	-
Other	106,607	165,068	-	-	-	-
	681,821	664,962	361,289	333,944	40,063	19,702

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

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

The Company's revenue analyzed by category:

	2008	2007
Sales of goods	591,745	582,329
Export subsidies	-	6,558
Services rendered	23,083	20,708
	614,828	609,595

The Group's revenue analyzed by category:

	2008	2007
Sales of goods	679,876	657,173
Export subsidies	-	6,558
Services rendered	1,945	1,231
	681,821	664,962

Pursuant to European Commission Regulation *On definition of compensation for milk and milk product export costs*, with effect from 1 May 2004 the Company is entitled to receive subsidies for cheese exported to the countries specified in the Regulation. Export subsidies are paid for each tone of exported products that meet certain requirements attached to the Regulation. Export subsidies receivable are recorded under amounts trade and other receivables (Note 21).

6. Selling and marketing expenses

The Group			The Company	
2008	2007		2008	2007
9,361	6,777	Marketing services	991	52
10,176	7,325	Payroll expenses	4,208	3,907
12,226	6,700	Transportation services	9,515	5,671
1,147	1,467	Product image creation and advertising expenses	193	388
2,445	2,597	Repair and maintenance	1,350	2,067
1,808	1,290	Depreciation of property, plant and equipment	1,568	1,175
638	115	Warehousing services	638	115
3,226	3,130	Other expenses	1,496	2,573
41,027	29,401		19,959	15,948

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

7. General and administrative expenses

The Group 2008	The Group 2007		The Company 2008	The Company 2007
8,386	7,956	Payroll expenses	5,504	5,409
322	328	Taxes (other than income tax)	178	254
775	3,798	Impairment and write-offs of loans and receivables	760	3,025
2,081	1,271	Consulting expenses	952	803
4,754	-	Impairment of investment to the subsidiaries	9,691	-
4,118	3,678	Depreciation of property, plant and equipment and amortization of intangible assets	966	1,302
1,072	913	Repair and maintenance	532	802
(2,153)	11,567	Paid and accrued bonuses (reversal)	(2,153)	11,567
396	523	Telecommunication and IT maintenance expenses	241	411
321	300	Insurance expenses	253	281
6	1,603	Write-offs of property, plant and equipment	-	1,102
345	264	Bank charges	238	229
515	610	Business trips	494	522
188	1,050	Fines	24	831
74	320	Training of employees	46	302
70	141	Membership fees	62	141
311	1,805	Charity, support	264	1,764
3,637	4,201	Other expenses	2,278	3,090
25,218	40,328		20,330	31,835

Due to changes in current market and economic downturn faced by the Company, shareholders decided to decrease actual bonus payment for the year 2007 by LTL 2,153 thousand on 25 April 2008.

8. Other income

The Group 2008	The Group 2007		The Company 2008	The Company 2007
9,784	8,061	Re-sale of goods	9,740	10,888
2,112	1,234	Interest income	2,088	1,208
1,361	1,506	Other income	1,320	1,474
13,257	10,801		13,148	13,570

9. Other expenses

The Group 2008	The Group 2007		The Company 2008	The Company 2007
9,581	8,070	Cost of goods resold	9,603	10,889
2,635	553	Other costs	2,628	919
12,216	8,623		12,231	11,808

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

10. Other operating (losses)/gains - net

The Group 2008	The Group 2007		The Company 2008	The Company 2007
(92)	394	Loss on disposal of property, plant and equipment (Note 32)	(76)	383
(92)	394		(76)	383

11. Expenses by nature

The Group 2008	The Group 2007		The Company 2008	The Company 2007
464,411	422,384	Raw materials and consumables used	328,243	340,084
24,379	(11,304)	Changes in inventories of finished goods and work in progress	25,930	(9,746)
56,005	58,105	Salaries including Social security costs	34,892	45,352
43,955	27,635	Transportation services	41,211	32,104
27,780	27,440	Depreciation and amortization	22,538	22,716
(2,463)	(2,250)	Amortization of grant for property, plant and equipment (Note 27)	(2,155)	(2,152)
9,361	6,777	Marketing services	991	52
10,063	12,041	Repair and maintenance	8,104	13,014
-	-	Cost of finished goods resold (intercompany transactions)	4,476	3,635
-		Cost of raw materials resold (intercompany transactions)	114,428	65,640
4,754	-	Write-off of investments	9,691	-
546	468	Taxes (other than income tax)	402	432
2,081	1,271	Consulting expenses	952	803
569	660	Telecommunication and IT maintenance expenses	414	584
56,324	75,502	Other	42,621	55,886
697,765	618,749	Total cost of sales, selling and marketing expenses and general and administrative expenses	632,738	568,404

12. Finance costs

The Group 2008	The Group 2007		The Company 2008	The Company 2007
		Interest expense:		
(6,003)	(2,277)	– bank borrowings	(5,992)	(2,275)
(5)	(1)	– finance leases	(4)	-
(6,008)	(2,278)		(5,996)	(2,275)

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

13. Income tax

The Group 2008	The Group 2007		The Company 2008	The Company 2007
-	(13,859)	Current tax	-	(12,016)
(6)		Prior year income tax corrections	(47)	-
2,682	1,590	Deferred tax (Note 18)	3,195	1,590
2,676	(12,269)		3,148	(10,426)

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
(21,003)	46,507	Profit (loss) before tax	(23,065)	41,061
(3,150)	8,371	Tax calculated at a tax rate of 15 per cent (2007: 18 per cent) (Note 2.15)	(3,460)	7,391
1,904	5,035	Tax non-deductible expenses	1,846	4,172
(417)	(151)	Income not subject to tax	(417)	(151)
49	-	Additional income for tax purposes	32	-
-	(594)	Charity expenses deductible twice for tax purposes	-	(594)
6	-	Prior year income tax corrections	47	-
(1,068)	-	Effect of change in income tax rate	(1,196)	-
-	(392)	Other	-	(392)
(2,676)	12,269	Tax charge	(3,148)	10,426

The tax authorities have carried out full-scope tax audits at the Company for the year 2001. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

14. Earnings (loss) per share

The Group 2008	The Group 2007		The Company 2008	The Company 2007
(18,327)	34,238	Net profit (loss) attributable to shareholders	(19,917)	30,599
40,722	42,325	Weighted average number of ordinary shares in issue (thousands)	40,722	42,325
(0.45)	0.81	Basic earnings (loss) per share (LTL per share)	(0.49)	0.72

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

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

15. Property, plant and equipment

The Company

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2007					
Cost	47,609	141,147	69,947	5,539	264,242
Accumulated depreciation	(12,228)	(82,279)	(46,913)	-	(141,420)
Net book amount	35,381	58,868	23,034	5,539	122,822
Year ended 31 December 2007					
Opening net book amount	35,381	58,868	23,034	5,539	122,822
Additions	122	8,087	5,534	1,344	15,087
Disposals	(179)	(723)	(111)	-	(1,013)
Contribution to subsidiaries share capital (Note 17)	(12,489)	(10,567)	(1,710)	-	(24,766)
Write-offs	(251)	(27)	(1,173)	(1,309)	(2,760)
Transfers from CIP	1,805	3,114	653	(5,572)	-
Depreciation charge	(1,557)	(13,893)	(6,970)	-	(22,420)
Closing net book amount	22,832	44,859	19,257	2	86,950
At 31 December 2007					
Cost	32,612	116,315	67,200	2	216,130
Accumulated depreciation	9,781	71,456	47,943	-	129,180
Net book amount	22,832	44,859	19,257	2	86,950
Year ended 31 December 2008					
Opening net book amount	22,832	44,859	19,257	2	86,950
Additions	1,154	18,255	9,596	5,574	34,579
Disposals	(216)	(8)	(91)	-	(315)
Write-offs	-	(29)	(52)	-	(81)
Transfers from CIP	1,498	3,438	550	(5,486)	-
Depreciation charge	(1,242)	(13,655)	(7,389)	-	(22,286)
Closing net book amount	24,026	52,860	21,871	90	98,847
At 31 December 2008					
Cost	34,978	137,389	73,476	90	245,933
Accumulated depreciation	(10,952)	(84,529)	(51,605)	-	(147,086)
Net book amount	24,026	52,860	21,871	90	98,847

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

The Group

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2007					
Cost	47,609	141,147	69,947	5,539	264,242
Accumulated depreciation	(12,228)	(82,279)	(46,913)	-	(141,420)
Net book amount	35,381	58,868	23,034	5,539	122,822
Year ended 31 December 2007					
Opening net book amount	35,381	58,868	23,034	5,539	122,822
Acquisition of subsidiaries	687	118	417	67	1,289
Additions	128	9,923	5,791	3,734	19,576
Disposals	(179)	(1,579)	(111)	-	(1,869)
Write-offs	(267)	(1,629)	(177)	(1,309)	(3,382)
Transfers from CIP	2,123	5,184	655	(7,962)	-
Depreciation charge	(1,894)	(15,837)	(7,254)	-	(24,985)
Closing net book amount	35,979	55,048	22,355	69	113,451
At 31 December 2007					
Cost	46,428	127,842	71,416	69	245,755
Accumulated depreciation	(10,449)	(72,794)	(49,061)	-	(132,304)
Net book amount	35,979	55,048	22,355	69	113,451
Year ended 31 December 2008					
Opening net book amount	35,979	55,048	22,355	69	113,451
Acquisition of subsidiaries (Note 31)	53	840	554	-	1.447
Additions	901	23,309	9,639	6,214	40,063
Disposals	(216)	(166)	(202)	-	(584)
Write-offs	-	(7)	(198)	-	(205)
Transfers from CIP	1,705	3,907	581	(6,193)	-
Depreciation charge	(1,855)	(15,157)	(7,954)	-	(24,966)
Closing net book amount	36,567	67,774	24,775	90	129,206
At 31 December 2008					
Cost	48,696	155,226	77,665	90	281,677
Accumulated depreciation	(12,128)	(87,453)	(52,890)	-	(152,471)
Net book amount	36,568	67,773	24,775	90	129,206

As at 31 December 2008, certain property, plant and equipment with a carrying value of LTL 50,973 thousand (31 December 2007: LTL 58,407 thousand) have been pledged as security for bank borrowings.

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

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

16. Intangible assets

The Comapny

	Software
At 1 January 2007	
Cost	2,039
Accumulated amortisation	(1,492)
Net book amount	547
Year ended 31 December 2007	
Opening net book amount	547
Additions	126
Contribution to subsidiaries share capital (Note 17)	(35)
Write-offs	
Amortisation charge	(297)
Closing net book amount	341
At 31 December 2007	
Cost	1,712
Accumulated amortisation	(1,371)
Net book amount	341
Year ended 31 December 2008	
Opening net book amount	341
Additions	229
Amortisation charge	(252)
Closing net book amount	318
At 31 December 2008	
Cost	1,941
Accumulated amortisation	(1,623)
Net book amount	318

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

The Group	Client contractual relationships	Software	Total
At 1 January 2007			
Cost	-	2,039	2,039
Accumulated amortisation	-	(1,492)	(1,492)
Net book amount	-	547	547
Year ended 31 December 2007			
Opening net book amount	-	547	547
Acquisition of subsidiaries	5,597	-	5,597
Additions	-	126	126
Write-offs	-		
Amortisation and impairment charge	(2,123)	(332)	(2,455)
Closing net book amount	3,474	341	3,815
At 31 December 2007			
Cost	5,597	1,712	7,309
Accumulated amortisation	(2,123)	(1,371)	(3,494)
Net book amount	3,474	341	3,815
Year ended 31 December 2008			
Opening net book amount	3,474	341	3,815
Acquisition of subsidiaries (Note 31)	1,190		1,190
Additions		229	229
Amortisation and impairment charge	(2,554)	(260)	(2,814)
Closing net book amount	2,110	310	2,420
At 31 December 2008			
Cost	6,787	1,942	8,729
Accumulated amortisation	(4,677)	(1,632)	(6,309)
Net book amount	2,110	310	2,420

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

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

17. Investment in subsidiaries

The Company's investments into subsidiaries and joint venture are accounted for at cost less impairment in stand-alone financial statements. The Company acquired 2 new subsidiaries (Europienas UAB, Jekabpils Piena Kombinats SIA) during the year 2008. Movemnet of cost of investments in subsidiaries as of 31 December are summarized in the table below:

At 1 January 2007	**10**
Subsidiaries and joint venture acquired	8,409
Increased cost of investment through contribution of property, plant and equipment into Rokiskio suris AB	24,811
At 31 December 2007	**33,220**
Subsidiaries acquired	6,244
Impairment charge	(9,691)
At 31 December 2008	**29,773**

Impairment was calculated on investment into: Europienas UAB, Pecupe UAB and Skeberdis ir partneriai UAB since those companies were reorganized and stopped their activities. Skirpastas UAB, Zalmarge KB and Batenai activities will also be reorganized.

18. Deferred income tax

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

The Group			The Company	
2008	**2007**		**2008**	**2007**
		Deferred tax assets:		
4,213	-	– to be recovered after more than 12 months	4,213	-
572	1,590	– to be recovered within 12 months	572	1,590
4,785	1,590		4,785	1,590
		Deferred tax liabilities:		
(513)	-	– to be recovered after more than 12 months	-	-
-	-	– to be recovered within 12 months	-	-
(513)	-		-	-
4,272	1,590	Net deferred tax assets	4,785	1,590

The gross movement on the deferred income tax account is as follows:

The Group			The Company	
2008	**2007**		**2008**	**2007**
1,590	-	Beginning of the year	1,590	-
2,682	1,590	Income statement credit (Note 13)	3,195	1,590
4,272	**1,590**	End of the year	**4,785**	**1,590**

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

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

The Company

Deferred tax assets	**Inventory net realizable value adjustment**	**Amortized cost of loans granted**	**Tax losses carried forward**	**Total**
At 1 January 2007	**-**	**-**	**-**	**-**
Credited /(charged) to income statement	1,590	-	-	1,590
At 31 December 2007	**1,590**	**-**	**-**	**1,590**
Credited /(charged) to income statement	(1,018)	314	3,899	3,195
At 31 December 2008	**572**	**314**	**3,899**	**4,785**

Accumulated tax losses occurred from the beginning of year 2008 can be carried forward and netted against all future taxable profits.

The Group

Deferred tax assets	**Inventory net realizable value adjustment**	**Amortized cost of loans granted**	**Tax losses carried forward**	**Total**
At 1 January 2007	**-**	**-**	**-**	**-**
Credited /(charged) to income statement	1,590	-	-	15,90
At 31 December 2007	**1,590**	**-**	**-**	**1,590**
Credited /(charged) to income statement	(1,018)	314	3,899	3,195
At 31 December 2008	**572**	**314**	**3,899**	**4,785**

Deferred tax liabilities	**Accelerated tax depreciation**	**Total**
At 1 January 2007	**-**	**-**
Credited /(charged) to income statement	**-**	**-**
At 31 December 2007	**-**	**-**
Credited /(charged) to income statement	(513)	(513)
At 31 December 2008	**(513)**	**(513)**

Deferred tax assets and Deferred tax liabilities were calculated using tax rate of 20% (2007: 15%) enacted by the balance sheet date and is expected to apply when the related deferred tax asset is realized or deferred tax liability is settled.

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

19. Loans granted

The Group 2008	The Group 2007		The Company 2008	The Company 2007
9,847	16,461	Long-term loans to farmers	9,847	16,461
375	460	Long-term loans to employees	237	460
19,236	653	Other long-term loans	19,236	653
(2,256)	(2,238)	Less: provision for impairment of loans receivable	(2,256)	(2,238)
27,202	15,336	Long-term loans net	27,064	15,336
1,613	4,340	Current portion of loans to farmers	1,603	4,294
110	708	Current portion of loans to employees	110	708
-	20,937	Other short term loans granted	-	20,622
-	-	Less: provision for impairment of other amounts receivables	-	-
1,723	25,985	Current portion of long term loans and short term loans net	1,713	25,624

Loans to farmers were granted with repayment terms ranging from 2 months to 10 years. The annual interest rate ranges from 0 to 10 per cent. Effective interest rate was 7.58 per cent (2007: 7.74 per cent).

Long-term loans to employees were granted with repayment terms ranging from 1 to 22 years. The loans are interest free. Effective interest rate was 10.88 per cent (2007: 9.56 per cent).

Other loans were granted with repayment term from 1 to 5 years. Weighted average interest rate of loans is 8 per cent.

Loans to employees, farmers and other long-term loans include a certain amount of loans granted to Directors and Board member of the Group (Note 33).

As at 31 December 2008 fair value of loans granted to employees amounted to LTL 429 thousands (2007: LTL 1,083 thousands). As at 31 December 2008 fair value of loans granted to farmers as at 31 December amounted to LTL 8,681 thousand (2007: LTL 14,397 thousands).

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
26,635	37,283	Loans granted not past due	26,487	36,922
2,290	4,038	Loans granted past due but not impaired	2,290	4,038
2,256	2,238	Impaired loans granted	2,256	2,238
31,181	43,559	Gross value of loans granted	31,033	43,198
(2,256)	(2,238)	Impairment	(2,256)	(2,238)
28 925	41,321	Net value	28,777	40,960

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

20. Inventories

The Group			The Company	
2008	2007		2008	2007
7,423	7,072	Raw materials	3,467	3,994
13,484	18,489	Work in progress	13,283	18,489
66,007	85,381	Finished goods	63,096	83,820
3,170	3,855	Other inventory	3,166	3,677
90,084	114,797	Total inventories at cost	83,012	109,980
(2,861)	(10,602)	Less: write-down to net realizable value	(2,861)	(10,602)
87,223	104,195	Total inventories	80,151	99,378

As at 31 December 2008, inventories with cost up to LTL 89,380 thousand (as at 31 December 2007: LTL 37,336 thousand) have been pledged as security for bank borrowings.

As at 31 December 2008, inventories (fat-free powdered milk and concentrate of whey protein) with cost of LTL 2,316 thousand (as at 31 December 2007: 6,090 none) was in the custody of Girtekos Logistika UAB.

21. Trade and other receivables

The Group			The Company	
2008	2007		2008	2007
		Non current receivables		
955	3,840	Prepayments	955	3,730
		Current receivables		
93,587	53,945	Trade receivables	89,460	48,875
747	5,358	VAT receivable	-	5,537
-	64	Export subsidies receivable	-	64
3,253	556	Prepayments and deferred charges	2,328	547
97,587	59,923		91,788	55,023

As at 31 December 2008, trade accounts receivable for LTL 14,555 thousand (as at 31 December 2007: LTL 17,087 thousand) have been pledged as security for bank borrowings.

Current portion of long-term receivables and other amounts receivable include a certain amount of loans and other receivables from related parties (Note 33).

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

The information on receivables overdue is provided in the table below:

The Group 2008	The Group 2007		The Company 2008	The Company 2007
71,836	44,200	Trade receivables that were not past due neither impaired	46,629	39,326
21,751	9,745	Trade receivables that were past due but not impaired	42,831	9,549
118	-	Impaired receivables	118	-
93,705	53,945	Gross value	89,578	48,875
(118)	-	Impairment	(118)	-
93,587	53,945	Net value	89,460	48,875

The Group has received no collateral as security in relation to impaired amounts receivable.

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
13,300	8,336	Up to 30 days	34,386	8,140
4,987	1,306	31 to 60 days	4,985	1,306
3,582	88	61 to 180 days	3,578	88
-	15	More than 181 days	-	15
21,869	9,745		42,949	9,549

22. Cash and cash equivalents

The Group 31 December 2008	The Group 31 December 2007		The Company 31 December 2008	The Company 31 December 2007
3,242	4,623	Cash in bank and on hand	2,630	1,041

As at 31 December 2008 and 2007 cash in bank accounts and future cash inflows into these accounts have been pledged as security for bank borrowings.

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
3,242	4,623	Cash and bank balances	2,630	1,041
(22,024)	(9,192)	Bank overdrafts (Note 26)	(22,024)	(9,192)
(18,782)	(4,569)		(19,394)	(8,151)

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

23. Share capital

As at 31 December 2008 and as at 31 December 2007, the share capital was comprised of 42,716,530 ordinary registered shares with par value of LTL 1 each. All the shares are fully paid.

24. Treasury shares

	2008		2007	
	Number	**Amount**	**Number**	**Amount**
At beginning of year	783,650	4,702	474,617	20,352
Cancelation of treasury shares	-	-	(474,617)	(20,352)
Additions	1,971,386	10,790	78,365	4,702
	2,755,036	15,492	78,365	4,702
Split of shares *	-	-	783,650	4,702
At end of year	2,755,036	15,492	783,650	4,702

On 22 December 2006 the Company's shareholders made a decision to reduce the Company's authorized share capital by LTL 4,746 thousand through cancellation of 474,617 own shares previously purchased. Appropriate amendments were made to the Company's Articles of Association in 2007.

* On 29 October 2007 the Company's each share with par value of LTL 10 was spitted into 10 ordinary shares with par value of LTL 1.

25. Other reserves

Non-distributable reserves of LTL 3,593 thousand can only be used for share capital increase and non-distributable reserves of LTL1,121 thousand (legal reserve) can only be used for offsetting future operating losses, if any.

The dividends, declared in respect of 2007 and 2006 and paid in 2008 and 2007, amounted to LTL 9,902 thousand and LTL 10,081 thousand, respectively, which is LTL 0,24 and LTL 0,236 per share, respectively (when each share has par value of LTL 1). There were no dividends proposed or declared in respect of 2008 as at the date of approval of these financial statements.

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

26. Borrowings

The Group 2008	The Group 2007		The Company 2008	The Company 2007
		Current		
102,015	25,078	Short-term bank borrowings	101,866	25,000
22,024	9,192	Bank overdrafts	22,024	9,192
496	1,830	Current portion of long-term bank borrowings	459	1,830
97	54	Finance lease liabilities	97	12
124,632	36,154		124,446	36,034
		Non-current		
8	459	Long-term bank borrowings	-	459
-	45	Finance lease liabilities	-	-
8	504		-	459
124,640	36,658	**Total borrowings**	124,446	36,493

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

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
6.12	5.75	Long-term bank borrowings	6.12	5.75
3.73	5.67	Short-term bank borrowings	3.73	5.67
-	4.33	Finance lease liabilities	-	4.33
4.10	5.94	Bank overdrafts	4.10	5.94

As at 31 December the carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

The Group 2008	The Group 2007		The Company 2008	The Company 2007
124,446	36,493	Euro	124,446	36,493
194	165	Litas	-	-
124,640	36,658		124,446	36,493

Fair value of borrowings approximates to their carrying values due to fact that interest rate on the borrowings received is subject to repricing at least every six months.

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

27. Deferred income

The Group 2008	The Group 2007		The Company 2008	The Company 2007
8,106	9,083	Government grants at beginning of year	6,371	9,083
5,645	1,273	Government grants recognised	4,665	1,273
	-	Government grants transferred*	-	(1,833)
(2,463)	(2,250)	Credited to income statement	(2,155)	(2,152)
11,288	8,106		8,881	6,371
(8,445)	(5,946)	Less non-current portion	(6,383)	(4,422)
2,843	2,160	Current portion	2,498	1,949

* Government grants amounting to LTL 1,833 thousand related property, plant and equipment transferred to Rokiškio pienas UAB (Note 15). Transfer was made by settlement with intercompany receivables.

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

28. Trade payables and other amounts payable

The Group 2008	The Group 2007		The Company 2008	The Company 2007
43,696	52,176	Trade payables	36,846	49,843
3,508	3,531	Salaries, social security and taxes	1,921	2,314
1,231	1,044	Other payables	1,343	884
2,319	10,704	Accrued charges	1,197	10,071
50,754	67,455		41,307	63,112

29. Provisions

In March of 2008, the Competition Council, following its operational research of the Company and other companies operating in the milk sector, imposed a fine of LTL 824 thousand on the Company. In respect to this fine the Company's management established a 100 per cent provision in financial year 2007. For the purpose of the income statement for the year ended 31 December 2007, the above-mention amount was stated under administrative expenses.

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

30. Contingent liabilities and commitments

Contingent liabilities

The Group 2008	The Group 2007		The Company 2008	The Company 2007
929	793	Guarantees issued by the bank to third parties on behalf of the Group	929	793
51	196	Guarantees issued by the Group on behalf of farmers and agricultural companies	51	196
980	989		980	989

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

Capital commitments

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements was LTL 5,911 thousand (31 December 2007: LTL 3,426 thousand)

Operating lease commitments – where the Group is the lessee

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

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

The Group 2008	The Group 2007		The Company 2008	The Company 2007
281	257	Not later than 1 year	281	257
262	336	Later than 1 year but not later than 5 years	262	336
543	593		543	593

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

31. Business combinations

On 25 January 2008 the Company has acquired 50,05% of the share capital of SIA Jekabpils piena kombinats, the milk provider company for a total purchase price (cash paid) of LTL 1,509 thousand. On 10 May 2008 the Company acquired 100% of share capital of Europienas UAB, milk provider company.
The acquired businesses contributed revenues of LTL 3,170 thousand and net loss of LTL 2,454 thousand to the group for the period from 25 January 2008 to 31 December 2008 and 10 May 2008 to 31 December 2008 respectively.

The table below summaries the details of net assets acquired in a subsidiaries at the date of acquisition.

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	367	367
Property, plant and equipment (Note 15)	1,447	1,447
Other assets	-	-
Contractual customer relationships (included in intangibles) (Note 16)	1,190	-
Inventories	648	648
Trade and other receivables	1,678	1,678
Trade and other payables	(3,522)	(3,522)
Borrowings	(3)	(3)
Net assets at the date of acquisition	**1,805**	**615**
Minority share of net assets acquired	(314)	
Net assets acquired	**1,491**	
Impairment (Note 33)	4,754	
Total purchase consideration *	**6,245**	
Purchase consideration settled in cash (Note 32)	1,509	
Cash and cash equivalents in subsidiary acquired	(367)	
Net cash outflow on acquisition (Note 32)	1,142	

** Part of total purchase consideration was set off against loan receivable.*

Impairment included in the table above represents write-off of cost of investment into the subsidiary acquired. The subsidiary was acquired from related parties (Note 33). The overall situation in diary product market has changed and this impacted changes in expected benefit from the subsidiary, therefore management decided to write-off the investment to zero.

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

32. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

The Group 31 December 2008	2007		The Company 31 December 2008	2007
(21,003)	46,507	Net profit (loss) before tax	(23,065)	41,062
		Adjustments for:		
24,966	24,985	- depreciation (Note 15)	22,286	22,419
2,813	2,455	– amortisation and impairment charge (Note 16)	252	297
205	3,382	– write-off of property, plant and equipment and intangible assets (Notes 15 and 16)	81	2,760
92	(394)	– loss (gain) on disposal of property, plant and equipment (Note 10)	76	(383)
6,009	2,278	– interest expense (Note 12)	5,996	2,275
(786)	(348)	– interest income (Note 8)	(786)	(323)
2,860	10,602	– write-offs of inventories	2,860	10,602
4,753	-	– impairment of investment into subsidiaries (Note 17 and Note 33)	9,691	-
642	1,083	– impairment and write-offs of doubtful and bad receivables	642	1,083
	2,715	– impairment and write-offs of loans granted to farmers	-	1,942
1,585	-	– Amortised cost adjustment for loans receivable	1,585	-
(273)	(9,637)	– accrual for vacation reserve and bonus	(273)	(9,000)
(42)	-	– Mažumos dalis	-	-
(2,463)	(2,250)	– amortisation of government grants received (Note 27)	(2,154)	(2,152)
		Changes in working capital		
(28,476)	5,334	– receivables and prepayments	(30,251)	7,002
14,758	(12,083)	– inventories	16,366	(7,277)
(26,690)	31,977	– payables	(27,244)	28,923
(21,050)	106,606	Net cash generated from operating activities	(23 938)	99,230

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

2008	2007		2008	2007
584	1,869	Net book amount (Note 15)	315	1,013
(92)	394	Loss from disposal of property, plant and equipment (Note 10)	(76)	383
492	2,263	Proceeds from disposal property, plant and equipment	239	1,396

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

33. Related party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company's Managing Director), which together own 48.85 per cent (2007: 48.85) of the Company's share capital and 52.22 per cent of voting rights. Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 51.15 per cent of the share capital are widely held. Among the remaining shareholders are other related parties such as members of Company's board and their close family members. All of them together holds 57.51 per cent of voting rights.

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

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

The Group 31 December			**The Company 31 December**	
2008	**2007**		**2008**	**2007**
		(i) The following transactions were carried out with related parties:		
26,822	64,833	Purchase of milk and milk collection services from other related parties	91,481	79,339
-	-	Purchase of fixed assets	897	1,261
-	-	Purchase of inventory	5,033	7,564
4,555	-	Purchase of services	23,303	16,318
1,112	630	Purchase of consulting services	1,112	630
4,754	-	Purchase of subsidiary company set off against loan receivable *	4,754	-
1,251	1,375	Sales of utility services to other related parties	22,647	20,484
1,118	1,081	Sales of production and other inventories	175,650	117,907
-	8	Sale of fixed assets	-	321
1,301	852	Interest charges on credit facility	1,301	852

* Investment into subsidiary acquired Europienas UAB amounting to LTL 4,754 thousand was written-off (Note 31).

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

2008	**2007**		**2008**	**2007**
2,915	3,035	Non-interest bearing loans granted to Senior Management (and their families)	2,915	3,035
18,332	20,545	Credit facility granted to Pieno Pramonės Investicijų Valdymas UAB	18,332	20,545
-	-	Loan granted to Jekabpils Piena Kombinats SIA	391	-
3,839	10,803	Trade payables to other related parties	7,057	13,035
-	-	Trade receivables from other related parties	22,963	12,025

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

(iii) Compensation of key management

2008	2007		2008	2007
955	1,010	Salaries	955	1,010
-	9,414	Bonuses	-	9,414
296	347	Social Insurance Contributions	296	347
1,251	10,771		1,251	10,771

Key management includes 12 (2007: 12) members of the Board and Senior Management.

34. Events after the balance sheet date

Subsequent to the balance sheet date, the Company concluded certain credit agreements to finance its working capital. The credits were extended in EUR and amounted to LTL 126,919 thousand. The repayment term determined are as follows: 15 May 2009, 12 February 2010, 30 September 2010. The borrowings were secured over the property, plant and equipment and inventory balance.

The Company continued reorganization of three subsidiaries (Skeberdis is partneriai UAB, Pecupe UAB and Europienas UAB). The subsidiaries will be closed down legally by the end of second quarter of the year 2009.

Management has further plans to reorganize activities of the subsidiaries that are acting as a milk collection points by merging their operations with main operating company.