

**ŽEMAITIJOS PIENAS AB**

Independent Auditor's Report,  
Consolidated Annual Report, Financial Statements  
and Consolidated Financial Statements  
for the year ended 31 December 2008

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>3</b>
<b>CONSOLIDATED ANNUAL REPORT</b>	<b>4 - 13</b>
<b>FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS:</b>	
<b>BALANCE SHEETS</b>	<b>14</b>
<b>INCOME STATEMENTS</b>	<b>15</b>
<b>STATEMENTS OF CHANGES IN EQUITY</b>	<b>16</b>
<b>CASH FLOW STATEMENTS</b>	<b>17</b>
<b>EXPLANATORY NOTES</b>	<b>18 - 46</b>
<b>APPENDIX TO THE ANNUAL REPORT</b>	<b>47 - 66</b>



## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Žemaitijos Pienas AB:

### Report on the Financial Statements and the Consolidated Financial Statements

We have audited the accompanying financial statements (pages 14 to 46) of Žemaitijos Pienas AB (hereafter – the Company) and the consolidated financial statements of the Company and subsidiaries (hereafter – the Group), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company and the consolidated financial statements of the Group as of 31 December 2007 were audited by another auditor whose report dated 28 February 2008 expressed an unqualified opinion on those statements.

#### 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 and International Financial Reporting Standards as adopted by the EU. 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.

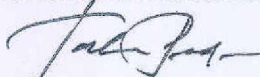
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements and consolidated 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 their cash flows for the year then ended in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by the EU.

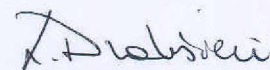
### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Consolidated Annual Report for the year ended 31 December 2008 (page 4 to 13) and have not noted any material inconsistencies between the historical financial information included in it and the consolidated financial statements for the year ended 31 December 2008.



Deloitte Lietuva UAB  
Torben Pedersen  
Partner

Vilnius, Lithuania  
16 March 2009



Certified auditor Lina Drakšienė  
Auditor's Certificate No. 000062



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

### CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

#### I. GENERAL INFORMATION ABOUT THE COMPANY

##### 1. Reporting period for which the annual report has been prepared

The consolidated annual report has been prepared for the financial year 2008.

##### 2. The Company and its contact information

Name	Žemaitijos Pienas AB
Legal form	Joint stock company
Registration date	Joint stock company was registered on 23 June 1993.
Company's code	180240752
VAT payer code	LT802407515
Share capital	48,375,000 LTL, which consists of 48,375,000 ordinary shares with a nominal value of 1 LTL each.
Address	Sedos str. 35, LT-87101 Telšiai
Phone	8-444-22201
Fax	8-444-74897
E-mail	<a href="mailto:info@zpienas.lt">info@zpienas.lt</a>
Website	<a href="http://www.zpienas.lt">www.zpienas.lt</a>

##### 3. Main business activity of the Company

Main business activity of Žemaitijos Pienas AB is production and sale of dairy products.

##### 4. Information on trading of the Company securities in the regulated markets

Žemaitijos Pienas AB ordinary shares are traded on Vilnius Stock Exchange (VSE) since 13 October 1997. The Company's shares included on an additional VSE trading list are as follows:

Share type – ordinary shares;  
Amount of shares – 48,375,000;  
Total nominal value – 48,375,000 LTL;  
ISIN code LT0000121865;  
VSE Symbol – ZMP1L

##### 5. Information on contracts with brokers publicly trading on the stock market

On 16 July 2004 the Company has signed an agreement with Šiaulių Bankas AB, address: Tilžės str. 149, Šiauliai, according to which from 23 July 2004, the Company's issued securities account is administrated by Šiaulių Bankas AB.

##### 6. Objective overview of position, business performance and development of the Group and the Company

Žemaitijos Pienas AB is one of the biggest and most modern dairy products' production companies in Lithuania.

Žemaitijos Pienas AB was established in 1924. That year Dairy of Telšiai commenced its operations and its operating capacity was considered to be as extremely significant at that time. At the end of 1984 Dairy of Telšiai began to operate in new premises and continued operating until the biggest in the Baltic States Creamery of Telšiai was established and privatized in 1993. Žemaitijos Pienas AB was registered on 23 June 1993 in Telšiai Regional Municipality and reregistered on 16 October 1998 in Ministry of Economy of the Republic of Lithuania.

Experience gained during many years and unique recipes, today, allows to provide the customers with wide assortment of high quality and remarkable taste products.

While consulting with the best European and American companies, concentrating on implementation of new technologies, and using the most advanced in the world membranous milk refinement technology "Bactocath" the variety and quality of produced goods has been improved. The Company produces fresh dairy products, butter, fermented and drawn cheese, and dry milk products.

Production of the Company is appreciated by many customers in Lithuania and foreign countries. Žemaitijos Pienas AB products are exported to the European Union countries (including the Baltic States), Russia, Belarus, United States of America, Israel and other. The high quality of products is not only defined by their popularity, but also by many awards in national and international exhibitions.

Majority of products produced by Žemaitijos Pienas AB are adhering not only with European, but also with global standards, have won gold medals and were awarded by diplomas in international exhibitions.

In average, per year the Company processes 280 tons of raw milk, 3,800 tons of organic milk, produces 9,600 tons of fermented cheese, 2,900 tons of butter, 280 tons of fat-free milk flour, 8,500 tons of whey flour, 1,000 tons of organic milk, 200 tons of organic yogurt (natural and with ingredients) and other.



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

As of 13 December 2006 a Director of State Food and Veterinary Service of the Republic of Lithuania by order No. B1-800 "Regarding animal food processing subject veterinary validation" superseded the order No. 4-104 dated 20 July 1995 "Regarding veterinary handling registration" and confirmed Žemaitijos Pienas AB compliance with new hygiene regulation requirements, confirmed Žemaitijos Pienas AB as producer of dairy products by issuing certificate No. 78-01 P to the Company.

In 2006 German Accreditation Council DAR audited Žemaitijos Pienas AB laboratory compliance with DIN EN ISO/IEC 17025:2000 requirements and confirmed the compliance by providing DAR accreditation certificate with registration number DAP-PL-3977.00.

In 2007 the Company started to produce organic products. EKOAGROS VŠĮ confirmed that Žemaitijos Pienas AB is in compliance with EU Council's regulation (EEB0 No. 2092/91) requirements and the rules of organic agriculture. Certified production of organic products: organic cheese with 45% fat, organic milk with 2.5% fat, organic yogurts (Certificate No. SER-K-07-00010, registration No. 060670P).

#### 7. Description of main risk and uncertainties met by the Company

The Company is engaged in dairy processing. The main factors which create business risk for the Company are possible changes in raw material and product markets, possible political, legal, social and technological changes, which are directly or indirectly related to the business of Žemaitijos Pienas AB and may negatively influence the Company's cash flows and financial performance.

The main raw material for the Company is milk, its sales volumes to the milk producers of European Union for further processing is restricted by national milk quotas. The restriction of raw material supply may cause a lack of raw material and increase its cost. These changes may negatively affect the Company's cash flows and financial performance.

The Company's activity (especially milk collection and transportation) requires a lot of labor force. Changing prices of fuel and increasing wages may negatively affect the Company's growth potential and financial performance.

The Company focuses on production of fresh dairy products and cheeses; the main part of revenue consists of sales of those products. Consequently negative demand and price changes in fresh dairy product and cheese markets may have an impact on the Company's revenue, net profit and financial position. Competition in national and international dairy product market may negatively affect prices of products.

#### 8. Analysis of the financial and operating results, information related to the environmental protection and human resources management

The main indicators reflecting the performance of the Group and the Company in 2008 (in thousands of LTL):

Financial indicators	The Group	The Company
Sales	471,829	471,511
Gross profit	72,149	70,164
Profit before tax, interest, depreciation and amortisation	15,060	12,797
(Loss) before income tax	(3,889)	(5,123)
Investments into property, plant and equipment	31,346	29,752

Comparison of tonnage and prices of purchased raw milk in 2008 and 2007:

Raw milk purchases (recalculated based on standard fat)	2008	2007
Amount of purchased milk, tons	340	335
Price of purchased milk, LTL/t.	752	709

Comparison of the sales of Žemaitijos Pienas AB in Lithuania and export by product groups in 2008 and 2007 was as follows (in thousands of LTL):

Product groups	Sales, LTL		The net change comparing 2008 and 2007 (%)
	2008	2007	
Fermented cheese	225,823	200,899	12.41
Fresh dairy products	143,780	120,957	18.87
Butter products	33,829	32,594	3.79
Ice-creams	15,121	13,646	10.81
Dry dairy products	13,194	36,381	(63.73)
Other	39,698	53,098	(25.24)
Export subsidies	66	6,712	(99.02)
	<b>471,511</b>	<b>464,287</b>	<b>1.56</b>



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

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#### **9. References and additional explanations on the information presented in the financial statements**

Information presented in the explanatory notes of Consolidated Financial Statements is sufficient, comprehensive and is not explained additionally.

#### **10. The number of acquired and owned own shares, their par value and the part of the share capital represented by such shares**

During the reporting period the Company did not acquire or own its own shares.

#### **11. The number of acquired and transferred own shares during the reported period, their par value and the part of the share capital represented by such shares**

During the reporting period the Company did not acquire or transfer its own shares.

#### **12. Information on payments for own shares if they are acquired and transferred for a fee**

During the reporting period the Company did not acquire or transfer its own shares.

#### **13. Reasons of the Company's own shares acquisitions during the reported period**

During the reporting period the Company did not acquire or transfer its own shares.

#### **14. Information about the Group's and the Company's branches, representation offices and subsidiaries**

Subsidiaries controlled by the Company:

Tarpučių Pienas ŽUK, reg. code 1151449845  
Share Capital – LTL 496,027. The Company owns 10.08%.  
Registered address – Klaipėdos str. 3, Šilutė  
Business activities – Raw milk cooling

Sodžiaus Pienas ŽUK, reg. code 177975514  
Share Capital – LTL 694,570. The Company owns 15.09%.  
Registered address – Šilalės str. 35, Laukuva, Šilalė district  
Business activities – Raw milk cooling

Šilutės Rambynas ABF, reg. code 277141670  
Share Capital – LTL 8,596,650. The Company owns 87.82%.  
Registered address – Klaipėdos str. 3, Šilutė  
Business activities – Production of fermented cheese

Žemaitijos Pienas AB has 7 branches:

- Vilnius branche, address: Algirdo str. 40/13, Vilnius
- Kaunas branche, address: Kėdainių str. 8A, Kaunas
- Anykščiai branche, address: Vilties str. 4A, Anykščiai
- Alytus branche, address: Pušinių str. 23, Alytus
- Klaipėda branche, address: Šilutės rd. 33, Klaipėda
- Panevėžys branche, address: J. Janonio str. 9, Panevėžys
- Telšiai branche, address: Sedos str. 35, Telšiai

#### **15. Significant events happened after the end of financial year**

On 28 February 2008 Competition Council of the Republic of Lithuania after the research on cartel agreements and evaluation of Žemaitijos Pienas AB motives for possible violation of Law on Competition of the Republic of Lithuania section 5 part 1 article 1, concluded that there were no violation of the law in the activities of Žemaitijos Pienas AB and the case against the Company was terminated.

As of 31 December 2008 the Company's registered (authorized) share capital consisted of 48,375,000 ordinary shares with par value LTL 1 each. All shares are issued, subscribed and fully paid. As of 31 December 2008 the Company's subsidiaries did not own any shares of the Company; the Company as well did not possess its own shares.

Until 12 March 2008 the Company's registered (authorized) share capital was LTL/000 48,375, which consisted of 4,837,500 shares with par value LTL 10 each. On 12 March 2008 Žemaitijos Pienas AB has registered changes to the Company's Statute in the Register of Legal Entities regarding change of par value of ordinary shares from LTL 10 each to LTL 1 each.

In April 2008 a subsidiary of Žemaitijos Pienas AB Telšių autoservisas AB was signed out from the Register of Legal Entities.

In May 2008 Žemaitijos Pienas AB from Žemaitijos Pieno Investicija AB has acquired 87.82% of Šilutės Rambynas ABF (754,938 units) ordinary shares, for LTL 10,878,000; by paying LTL 14.41 per share.



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

On 9 March 2006 the Company and the Ministry of Social Security and Labour of the Republic of Lithuania have signed a grant agreement for the project "Training of common abilities and skills of employees of Žemaitijos Pienas AB". According to this agreement a support of LTL 810,523 was granted. All expenses of the project amounted to LTL 1,365,437. In 2006 LTL 39,517 or 2.90% were used, in 2007 LTL 720,185 or 52.74% were used, in 2008 LTL 605,735 or 44.36% were used. The implementation of this project was finished in May 2008.

In September 2008 a subsidiary of Žemaitijos Pienas AB, Žemaitijos Pieno Žaliava UAB was signed out from the Register of Legal Entities.

During the 17<sup>th</sup> international specialized exhibition AgroBalt 2008, YOGURT CREAM (for salad), 10% fat, was awarded with a gold medal.

Fermented cheese DŽIUGAS and cheese strips PIK-NIK were awarded with a gold medal during exhibition PRODEXPO 2008 held in Moscow.

Žemaitijos Pienas AB, Klaipėdos Pienas AB and Šilutės Rambynas ABF, started the development of integrated scheme of food safety and quality control (in accordance with ISO 22000:2006 and ISO 9001:2008 standards).

EKOAGROS VŠĮ re-certified Žemaitijos Pienas AB production of the organic products. Re-certified:

- Organic cheese, 45% fat content in the dry matter;
- Organic milk, 2.5% fat;
- Organic yogurt, 2.5% fat;
- Organic yogurt with strawberries, 2.0% fat;
- Organic yogurt with lemon and ginger, 2.0% fat;
- 2008 03 07 Certificate No. SER-K-08-00011, registration No. 060670P.

EKOAGROS VŠĮ confirmed that Žemaitijos Pienas AB conformed to the requirements of EU Council Regulation (EEC) No. 2092/91 and the rules of organic agriculture. Production of certified organic products:

- Organic yogurt with honey and wheat, 2.1% fat;
- 2008 05 09 Certificate No. SER-K-08-00020, registration No. 060670P.

EKOAGROS VŠĮ confirmed that Žemaitijos Pienas AB conformed to the requirements of EU Council Regulation (EEC) No. 2092/91 and the rules of organic agriculture. Production of certified organic products:

- Organic half fat curd, 9% fat;
- 2008 12 04 Certificate No. SER-K-08-03956, registration No. 060670P.

The validity of former certificates was extended by the Kaliningrad Centre of Certification and Metrology.

Produced goods of the Company were re-certified for Ukraine's market and the validity of former certificates was extended by the Kaliningrad Centre of Certification and Metrology and Belarus Centre of Certification BELGIM.

#### **16. Plans and forecasts of the Group's and the Company's operations**

The long-term goals of Žemaitijos Pienas AB Group are to become a strong, technically modern, reliable company attractive for investors; to create a profitable market for its products in the European Union and the Baltic States; to retain the highest quality of its products; to fully use existing production capacities; to systematically accumulate intellectual capital.

The main current goals of the Group and the Company:

- to purchase milk on market but in any case paying not more than paid by other market participants purchasing raw milk in Lithuania;
- to increase sales at prices favorable for the Company. To concentrate on the main collection of the strongest products and to maintain at least 20% share in the domestic market; in the foreign markets to go for sales of products bigger value added;
- to reinforce the marketing function and to promote the Company's name;
- to reduce production expenses and cost of products;
- to cease unprofitable production as soon as possible;
- to reduce distribution expenses;
- to give insensitive to employees only for the final result and fulfillment of plans.

#### **17. Information on research and development of the Company and the Group**

The Group and the Company has been investing and searching for the ways to retain steady growth and better operating effectiveness.

**18. When the Group and the Company uses financial instruments and where this is of importance for the evaluation of the entity's assets, equity capital, liabilities, financial position and performance, the Group and the Company shall disclose financial risk management objectives, its policy for hedging major types of forecasted transactions for which hedge accounting is used, and the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk**

The Company and the Group did not use any derivative financial instruments for the risk management purpose during the reporting period. Information on the Group's and the Company's financial risk management is disclosed in the explanatory notes to the consolidated financial statements and financial statements (note 28).



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008****II. OTHER INFORMATION ABOUT THE COMPANY****1. The structure of the Company's share capital**

Share capital of LTL 48,375,000 has been registered in the Register of Legal Entities. It is divided into 48,375,000 registered shares with the par value of one Litas each. All shares are fully paid.

**2. All restrictions on the transfer of securities**

Restrictions on the transfer of securities are not applicable.

**3. The shareholders of the Company**

As of 31 December 2008 the Company had 3,177 shareholders.

Shareholders holding or controlling more than 5% of Žemaitijos Pienas AB share capital and votes:

Shareholder	2008	
	Owned shares (units)	Portion of share capital and votes (%)
Pažemeckas Algirdas	21,355,870	44.15
SKANDINAVISKA ENSKILDA BANKEN CLIENTS, code 50203290810, SERGELS TORG 2, 10640 STOCKHOLM, SWEDEN	3,841,690	7.94
Klaipėdos Pienas AB, company's code 240026930, Šilutės pl. 33, 91107 Klaipėda	3,601,844	7.45
Šnokienė Ona	2,614,430	5.40
Other minor shareholders	16,961,166	35.06
<b>Total capital</b>	<b>48,375,000</b>	<b>100</b>

**4. Shareholders having special rights to execute control and description of these rights**

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

**5. All restrictions on voting rights**

There are no restrictions on voting rights of shareholders.

**6. All agreements among the shareholders which are known to the Company and which may impose restrictions on the transfer of securities and (or) voting rights**

The Company is not aware of agreements among shareholders which may impose restrictions on the transfer of securities and (or) voting rights.

**7. Employees of the Company and the Group**

During the previous financial years the average number of Žemaitijos Pienas AB Group employees changed insignificantly:

	31 December 2008	31 December 2007
Average number of employees	1,839	1,875
Group's employees by education		
<b>Number of employees</b>	<b>31 December 2008</b>	
University degree	225	
Higher education	413	
Vocational education	440	
Secondary education	583	
Unfinished secondary education	178	
<b>Total</b>	<b>1,839</b>	



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

Žemaitijos Pienas AB Group's average monthly salary for a respective group of employees:

Department	31 December 2008	
	Number of employees	Average salary
Administration	122	4,110
Auxiliary	217	2,284
Transport division	264	2,810
Raw material collection division	236	1,411
Production division	652	1,704
Branches	348	2,336
<b>Total</b>	<b>1,839</b>	

**8. Procedure for amendment of the issuer's articles of association**

Žemaitijos Pienas AB operates in accordance with Laws of the Republic of Lithuania, Resolutions and Acts of Government of the Republic of Lithuania, regulating Companies' activities, the Law on Security market and the Company's Statute.

Žemaitijos Pienas AB statute is changed according to the Republic of Lithuania Legislation.

**9. The Company's management bodies**

The Company's management bodies are the Shareholders Meeting, the Supervisory Council and the Board.

The Supervisory Council and the Board are collegiate management bodies. The Supervisory Council is formed of 3 (three) persons and the Board of the Company is formed of 5 (five) persons. The members of both the Supervisory Council and the Board are appointed for a 4 (four) year-period.

Structure of the Supervisory Council:

Name, Surname	Position in the Company	Number of shares held (units)	Portion of share capital, (%)	Commencement date	Expiration date	Started working in Žemaitijos Pienas AB
Artūras Kanapienis	Chairman of the Supervisory Council	19,860	0.4	2007 10 13	2011 10 12	2008 09 05 General director of Žemaitijos Pieno Investicija AB
Robertas Pažemeckas	Member of the Supervisory Council	-	-	2007 10 13	2011 10 12	2002 08 26
Romusas Jarulaitis	Member of the Supervisory Council	1,105,510	2.29	2007 10 13	2011 10 12	1988 01 26

Structure of the Board:

Name, Surname	Position in the Company	Number of shares held	Portion of share capital, (%)	Commencement date	Expiration date	Started working in Žemaitijos Pienas AB
Irena Baltrušaitienė	Chairman of the Board, production manager	577,130	1.19	2008 09 30	2012 09 29	1975 08 15
Algirdas Bladžinauskas	Member of the Board, sales manager	-	-	2008 09 30	2012 09 29	1996 08 20
Dalia Gecienė	Member of the Board, chief accountant	665,160	1.38	2008 09 30	2012 09 29	1986 07 29
Romusas Jarulaitis	Member of the Board, export manager	1,105,510	2.29	2008 09 30	2012 09 29	1988 01 26
Algirdas Pažemeckas	Member of the Board, general director	21,355,870	44.15	2008 09 30	2012 09 29	1986 12 26

**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

Administration:

<b>Name, Surname</b>	<b>Position</b>	<b>Number of shares held (units)</b>	<b>Portion of share capital, (%)</b>
Robertas Pažemeckas	Acting director	-	-
Dalia Gecienė	Chief accountant	665,160	1.38

**10. All significant agreements where the Company is the counterparty, and which would come into effect, would be amended or terminated in the case of changes in the Company's control, as well as their impact, excluding the cases when due to the nature of these agreements their disclosure could cause significant damage to the Company**

There are no agreements where the Company is the counterparty, and which would come into effect, would be amended or terminated in the case of changes in the Company's control.

**11. All agreements among the company and the members of its management bodies or employees providing for compensation in the case of their resignation or dismissal without a justified reason or in the case of termination of their employment due to the changes in the Company's control.**

There are no agreements among the Company and the members of its management bodies or employees providing for compensation in the case of their resignation or dismissal without a justified reason or in the case of termination of their employment due to the changes in the Company's control.

**12. Information on compliance with the corporate governance code**

The information on compliance with the Company's Corporate governance code is provided in the amendment to the annual report (pages 47 to 66).



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

#### III. DATA ABOUT PUBLICLY DISCLOSED INFORMATION

<b>4 January 2008</b>	<p>Convocation of Žemaitijos Pienas AB extraordinary general shareholders' meeting. On initiative and decision of the Board of Žemaitijos Pienas AB, Convocation of Žemaitijos Pienas AB was announced on 8 February 2008 at 3 p.m., company code 180240752, reg. address Sedos str. 35, Telšiai, extraordinary general shareholders' meeting. Registration on 8 February 2008 from 13 p.m. till 14.45 p.m., meeting starts at 15 p.m. Meeting's location – the main office of the Company, Sedos str. 35, Telšiai. The meeting registration date: 1 February 2008</p> <p>Meeting's agenda:</p> <ol style="list-style-type: none"><li>1. Regarding changing the par value and increasing the number of the Company's shares;</li><li>2. Amendment of the Company's articles of association;</li><li>3. Other matters.</li></ol>
<b>28 January 2008</b>	<p>Draft resolutions of Žemaitijos Pienas AB extraordinary general shareholders' meeting scheduled for 8 February 2008.</p>
<b>11 February 2008</b>	<p>Resolutions of Žemaitijos Pienas AB extraordinary general shareholders' meeting held on 8 February 2008.</p> <ol style="list-style-type: none"><li>1. Regarding changing the par value and increasing the number of the Company's shares. To change the par value of the Company's shares from LTL 10 (ten) per share to LTL 1 (one) per share. To replace each share with a par value of LTL 10 (ten) held by shareholders by 10 (ten) shares with a par value of LTL 1 (one).</li><li>2. Regarding the amendment of the Company's articles of association. To change Žemaitijos Pienas AB Statute's article 5.1 and state it as follows: 5.1. The share capital of the company is LTL 48,375,000 (forty eight millions three hundred and seventy five thousands). Share capital consists of 48,375,000 (forty eight millions three hundred and seventy five thousands) ordinary shares with a par value of LTL 1 (one) each.</li><li>3. Empower General Director Algirdas Pažemeckas to sign up the amendments of the Company's articles of association and to deliver them to the Register of Legal Entities.</li></ol>
<b>29 February 2008</b>	<p>Žemaitijos Pienas AB Group's operating result of 2007. Žemaitijos Pienas AB Group's draft unaudited consolidated revenue – LTL 464.2 million (EUR 134.4 million); compared to 2006 revenue increased by 21.1%. Žemaitijos Pienas AB Group's unaudited net profit of 2007 is LTL 24.5 million (EUR 7.1 million), which is 5.3% of revenue.</p>
<b>29 February 2008</b>	<p>Žemaitijos Pienas AB interim financial information for 12 months period of 2007. Included:</p> <ul style="list-style-type: none"><li>- the Company's unaudited interim financial statements for the 12 months period of 2007;</li><li>- responsible persons' approval of information presented in the financial statements.</li></ul>
<b>4 March 2008</b>	<p>Regarding the decision of Competition Council of the Republic of Lithuania. Competition Council of the Republic of Lithuania after the research on cartel agreements and evaluation of Žemaitijos Pienas AB motives for possible violation of Law on Competition of the Republic of Lithuania 5 section 1 part 1 article, concluded that there were no violation of the law in the activities of Žemaitijos Pienas AB and the case against the Company was terminated</p>
<b>13 March 2008</b>	<p>Registered changes of Žemaitijos Pienas AB Statute. On 12 March 2008 Žemaitijos Pienas AB registered changes of Statute in the Register of Legal Entities regarding change of par value of ordinary shares from LTL 10 each to LTL 1 each. Article 5.1 of Žemaitijos Pienas AB Statute was changed and stated as follows: The share capital of the Company is LTL 48,375,000 (forty eight millions three hundred and seventy five thousands). Share capital consists of 48,375,000 (forty eight millions three hundred and seventy five thousands) ordinary shares with a par value of LTL 1 (one) each.</p>
<b>15 March 2008</b>	<p>Žemaitijos Pienas AB ordinary general shareholders' meeting will happen on 18 April 2008. On initiative and decision by the Board of Žemaitijos Pienas AB, Convocation on 18 April 2008 at 3 p.m. of The meeting registration date, company code 180240752, reg. address Sedos str. 35, Telšiai, ordinary general shareholders' meeting. Registration on 18 April 2008 from 14 p.m. till 14.45 p.m., meeting starts at 15 p.m. Meeting's location – the main office of the Company, Sedos str. 35, Telšiai. The meeting registration date: 1 April 2008</p> <p>Meeting's agenda:</p> <ol style="list-style-type: none"><li>1. The Company's Annual Report;</li><li>2. The Company's Independent Auditor's Report;</li><li>3. Approval of the Company's Financial Statements of 2007;</li><li>4. Distribution of the Company's profit of 2007;</li><li>5. The election of Audit Company and the settlement of payment terms;</li><li>6. Other questions.</li></ol>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

<b>7 April 2008</b>	Decision of the Board of Žemaitijos Pienas AB. Board's of Žemaitijos Pienas AB decision 18 March 2008. On 18 March 2008 the Board of Žemaitijos Pienas AB decided to approve and provide ordinary shareholders' meeting with the Company's Annual Report, Independent Auditor's Report and the Company's Financial Statements, prepared according to International Financial Reporting Standards, for approval. Board of the Company leaves the right to general shareholders' meeting to decide on payment/not payment of dividends.																						
<b>21 April 2008</b>	Resolutions of Žemaitijos Pienas AB ordinary general shareholders' meeting happened on 18 April 2008: <ol style="list-style-type: none"> <li>1. Annual Report of Žemaitijos Pienas AB was approved.</li> <li>2. Independent Auditor's Report of Žemaitijos Pienas AB was approved.</li> <li>3. The Financial Statements of Žemaitijos Pienas AB were approved.</li> <li>4. The following profit (loss) distribution (LTL'000) was approved:           <table border="0" style="margin-left: 20px;"> <tr> <td>1) Retained earnings (accumulated losses) at the beginning of the financial year</td> <td style="text-align: right;">18,412,591</td> </tr> <tr> <td>2) Net profit (losses) of the financial year</td> <td style="text-align: right;">24,247,722</td> </tr> <tr> <td>3) Transferred from reserves</td> <td style="text-align: right;">-</td> </tr> <tr> <td>4) Shareholders' contributions to cover the Company's losses (if shareholders decided to cover all or a part of losses)</td> <td style="text-align: right;">-</td> </tr> <tr> <td>5) Total distributable profit (losses)</td> <td style="text-align: right;">42,660,313</td> </tr> <tr> <td>6) A part of profit distributed to legal reserve</td> <td style="text-align: right;">-</td> </tr> <tr> <td>7) Entity's part of profit distributed to reserve for own shares</td> <td style="text-align: right;">-</td> </tr> <tr> <td>8) Part of profit distributed to other reserves</td> <td style="text-align: right;">-</td> </tr> <tr> <td>9) Part of profit distributed to payment of dividends</td> <td style="text-align: right;">-</td> </tr> <tr> <td>10) Part of profit distributed to annual bonuses for the Board's and Supervisory Councils' members, employees and other purposes</td> <td style="text-align: right;">-</td> </tr> <tr> <td>11) Retained earnings (accumulated losses) at the end of the financial year, transferred to the following financial year</td> <td style="text-align: right;">42,660,313</td> </tr> </table> </li> </ol>	1) Retained earnings (accumulated losses) at the beginning of the financial year	18,412,591	2) Net profit (losses) of the financial year	24,247,722	3) Transferred from reserves	-	4) Shareholders' contributions to cover the Company's losses (if shareholders decided to cover all or a part of losses)	-	5) Total distributable profit (losses)	42,660,313	6) A part of profit distributed to legal reserve	-	7) Entity's part of profit distributed to reserve for own shares	-	8) Part of profit distributed to other reserves	-	9) Part of profit distributed to payment of dividends	-	10) Part of profit distributed to annual bonuses for the Board's and Supervisory Councils' members, employees and other purposes	-	11) Retained earnings (accumulated losses) at the end of the financial year, transferred to the following financial year	42,660,313
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<b>7 May 2008</b>	Announcement about manager's agreement (-ents) regarding issuer of securities. Algirdas Pažemeckas, the Chairman of the Board of Žemaitijos Pienas AB, acquired 1,650,000 units of ordinary shares.																						
<b>13 May 2008</b>	Žemaitijos Pienas AB operating results of the 1 <sup>st</sup> quarter. Žemaitijos Pienas AB unaudited consolidated 1 <sup>st</sup> quarter of 2008 revenue – LTL 113.4 million (EUR 32.8 million); compared to 1 <sup>st</sup> quarter of 2007 revenue increased by 13.04%. Unaudited consolidated net losses – LTL 5.37 million (EUR 1.56 million), 1 <sup>st</sup> quarter of 2007 profit was LTL 1.21 million.																						
<b>20 May 2008</b>	Regarding the shares acquisition. Žemaitijos Pienas AB from Žemaitijos Pieno Investicija AB has acquired 87.82% of Šilutės Rambynas ABF (754,938 units) ordinary shares, for LTL 10,878,000; by paying LTL 14.41 per share.																						
<b>29 May 2008</b>	Financial statements for the 1 <sup>st</sup> quarter of 2008. Provided Žemaitijos Pienas AB responsible persons' approval and unaudited consolidated interim financial statements for three months period of 2008.																						
<b>17 June 2008</b>	Complemented Consolidated Annual Report of 2007.																						
<b>25 July 2008</b>	Žemaitijos Pienas AB 1 <sup>st</sup> half of 2008 results. Žemaitijos Pienas AB Group's draft unaudited consolidated revenue for the 1 <sup>st</sup> half of 2008 amounted to LTL 234.9 million (EUR 68.03 million); it is 15.77% higher than last year's for the same period. 1 <sup>st</sup> half of 2008 unaudited consolidated losses amounted to LTL 10.4 million (EUR 3.01 million). 1 <sup>st</sup> half of 2007 consolidated profit was LTL 6.2 million (EUR 1.8 million).																						
<b>19 August 2008</b>	Žemaitijos Pienas AB elected the Audit Company. The Board of Žemaitijos Pienas AB confirmed Audit Company Deloitte Lietuva UAB, which will perform an audit of the Company's financial statements, prepared in accordance with International Financial Reporting Standards, for the year 2008.																						



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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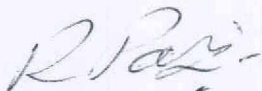
- 29 August 2008** Žemaitijos Pienas AB interim information of six months of 2008.  
Provided Žemaitijos Pienas AB unaudited financial statements for the 1<sup>st</sup> half of 2008 and interim annual report for the period of six months.
- 30 September** The Supervisory Council's of Žemaitijos Pienas AB meeting's resolutions.  
On 29 September 2008 the Supervisory Council of Žemaitijos Pienas AB extended for new cadence mandates of the Board's members: Algirdas Pažemeckas, Dalia Gecienė, Irena Baltrušaitienė, Romusas Jarulaitis, Algirdas Bladzinauskas.
- 7 October 2008** Selection of the Chairman of the Board's of Žemaitijos Pienas AB.  
The Board elected Algirdas Pažemeckas for the position of the Chairman of the Board of Žemaitijos Pienas AB.
- 19 November 2008** Election of the Chairman of the Board of Žemaitijos Pienas AB.  
On 18 November 2008 the Board selected Irena Baltrušaitienė for the position of the Chairman of the Board Žemaitijos Pienas AB.
- 28 November 2008** Žemaitijos Pienas AB interim consolidated financial statements of the period of nine months of 2008.  
Provided Žemaitijos Pienas AB interim consolidated financial statements of the period of nine months of 2008.

The Company reports on all significant events to NASDAQ OMX securities exchange information system there it is also possible to get acquainted with the Company's announcements; also news is presented on the Company's website.

#### IV. OTHER INFORMATION

There is no other information that should have been disclosed according to the laws, acts or the Company's Statute, regulating companies' activities, that has not been disclosed in this Annual Report and Financial Statements.

Robertas Pažemeckas  
Acting Director



16 March 2009



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

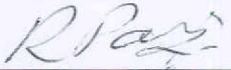
**BALANCE SHEETS  
AS OF 31 DECEMBER 2008**

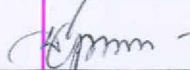
(All amounts in LTL thousands unless otherwise stated)

ASSETS	Notes	The Group		The Company	
		2008	2007	2008	2007
<b>Non-current assets</b>					
Intangible assets		201	571	194	571
Property, plant and equipment	5	88,481	50,751	64,303	50,450
Investment property	6	-	4,857	5,361	4,857
Investments available for sale		-	14	-	14
Investments into subsidiaries	1	-	-	11,033	1,000
Loans granted	7	1,124	2,191	1,102	2,191
Deferred income tax asset	23	1,152	653	971	653
<b>Total non-current assets</b>		<b>90,958</b>	<b>59,037</b>	<b>82,964</b>	<b>59,736</b>
<b>Current assets</b>					
Inventories	8	62,989	46,289	55,665	46,287
Prepayments		580	1,342	537	1,336
Trade accounts receivable	9	29,742	39,445	32,958	39,437
Other accounts receivable	10	8,367	6,717	8,036	6,652
Cash and cash equivalents	11	9,049	13,053	8,872	12,423
<b>Total current assets</b>		<b>110,727</b>	<b>106,846</b>	<b>106,068</b>	<b>106,135</b>
<b>TOTAL ASSETS</b>		<b>201,685</b>	<b>165,883</b>	<b>189,032</b>	<b>165,871</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	12	48,375	48,375	48,375	48,375
Legal reserve	12	4,838	4,838	4,838	4,838
Retained earnings		39,270	42,942	37,855	42,660
<b>Equity attributable to equity holders of the Company</b>		<b>92,483</b>	<b>96,155</b>	<b>91,068</b>	<b>95,873</b>
Minority interest		2,552	1,037	-	-
<b>Total Equity</b>		<b>95,035</b>	<b>97,192</b>	<b>91,068</b>	<b>95,873</b>
<b>Non-current liabilities</b>					
Grants received	13	4,157	2,999	1,947	2,966
Borrowings	14	25,632	20,631	25,632	20,631
Obligations under finance lease	15	13,370	5,553	12,043	5,553
Deferred income tax liability	23	640	-	-	-
<b>Total non-current liabilities</b>		<b>43,799</b>	<b>29,183</b>	<b>39,622</b>	<b>29,150</b>
<b>Current liabilities</b>					
Borrowings	14	18,545	2,899	18,159	2,899
Obligations under finance lease	15	4,642	2,316	4,325	2,316
Trade accounts payable	17	29,450	24,663	27,257	26,470
Income tax payable		3	4,648	-	4,644
Other accounts payable	18	10,211	4,982	8,601	4,519
<b>Total current liabilities</b>		<b>62,851</b>	<b>39,508</b>	<b>58,342</b>	<b>40,848</b>
<b>Total liabilities</b>		<b>106,650</b>	<b>68,691</b>	<b>97,964</b>	<b>69,998</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>201,685</b>	<b>165,883</b>	<b>189,032</b>	<b>165,871</b>

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

The consolidated financial statements and financial statements were approved on 16 March 2009 and signed by:

  
Robertas Pažemeckas  
Acting Director

  
Dalija Gečienė  
Chief Accountant



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania


**INCOME STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

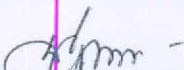
(All amounts in LTL thousands unless otherwise stated)

	Notes	The Group		The Company	
		2008	2007	2008	2007
Sales	19	471,829	464,226	471,511	464,287
Cost of sales		(399,680)	(362,030)	(401,347)	(362,464)
<b>GROSS PROFIT</b>		<b>72,149</b>	<b>102,196</b>	<b>70,164</b>	<b>101,823</b>
Operating expenses	20	(79,289)	(75,690)	(78,068)	(75,423)
Other operating income and expenses	21	4,647	5,956	5,327	5,782
<b>(LOSS) PROFIT FROM OPERATIONS</b>		<b>(2,493)</b>	<b>32,462</b>	<b>(2,577)</b>	<b>32,182</b>
Excess of the Group's interest in the fair value of net assets over the cost of the business combination	24	1,251	-	-	-
Finance costs		(2,783)	(2,188)	(2,742)	(2,188)
Other financial income and expenses	22	136	293	196	298
<b>(LOSS) PROFIT BEFORE TAX</b>		<b>(3,889)</b>	<b>30,567</b>	<b>(5,123)</b>	<b>30,292</b>
Income tax (benefit) expense	23	179	(6,057)	318	(6,044)
<b>NET (LOSS) PROFIT</b>		<b>(3,710)</b>	<b>24,510</b>	<b>(4,805)</b>	<b>24,248</b>
<b>ATTRIBUTABLE TO:</b>					
Shareholders of the Company		(3,672)	24,510	(4,805)	24,248
Minority interest		(38)	-	-	-
		<b>(3,710)</b>	<b>24,510</b>	<b>(4,805)</b>	<b>24,248</b>
<b>Basic and diluted earnings per share (LTL)</b>	25	<b>(0.08)</b>	<b>0.51</b>	<b>(0.10)</b>	<b>0.50</b>

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

The consolidated financial statements and financial statements were approved on 16 March 2009 and signed by:

  
Robertas Pažemeckas  
Acting Director

  
Dalia Gečienė  
Chief Accountant



**ŽEMAITIJOS PIENAS AB**

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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

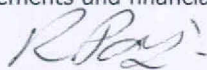
(All amounts in LTL thousands unless otherwise stated)

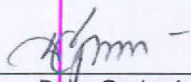
The Group	Share capital	Legal reserve	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total
<b>Balance as of 31 December 2006</b>	<b>48,375</b>	<b>4,838</b>	<b>19,400</b>	<b>72,613</b>	<b>1,037</b>	<b>73,650</b>
Dividends paid	-	-	(968)	(968)	-	(968)
Net profit	-	-	24,510	24,510	-	24,510
<b>Balance as of 31 December 2007</b>	<b>48,375</b>	<b>4,838</b>	<b>42,942</b>	<b>96,155</b>	<b>1,037</b>	<b>97,192</b>
Acquisition of subsidiary	-	-	-	-	1,553	1,553
Net (loss)	-	-	(3,672)	(3,672)	(38)	(3,710)
<b>Balance as of 31 December 2008</b>	<b>48,375</b>	<b>4,838</b>	<b>39,270</b>	<b>92,483</b>	<b>2,552</b>	<b>95,035</b>

The Company	Share capital	Legal reserve	Retained earnings	Total
<b>Balance as of 31 December 2006</b>	<b>48,375</b>	<b>4,838</b>	<b>19,380</b>	<b>72,593</b>
Dividends paid	-	-	(968)	(968)
Net profit	-	-	24,248	24,248
<b>Balance as of 31 December 2007</b>	<b>48,375</b>	<b>4,838</b>	<b>42,660</b>	<b>95,873</b>
Net (loss)	-	-	(4,805)	(4,805)
<b>Balance as of 31 December 2008</b>	<b>48,375</b>	<b>4,838</b>	<b>37,855</b>	<b>91,068</b>

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

The consolidated financial statements and financial statements were approved on 16 March 2009 and signed by:

  
 Robertas Pažemeckas  
 Acting Director

  
 Dalia Gecienė  
 Chief Accountant



**ŽEMAITIJOS PIENAS AB**

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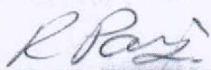
**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

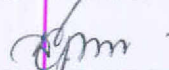
(All amounts in LTL thousands unless otherwise stated)

	The Group		The Company	
	2008	2007	2008	2007
<b>Cash flow from operating activities</b>				
Net (loss) profit	(3,710)	24,510	(4,805)	24,248
<b>Adjustments to net (loss) profit</b>				
Depreciation and amortization	16,166	16,676	15,178	16,038
Amortization of grants received	(2,247)	(2,509)	(1,019)	(2,193)
Loss (gain) from disposal and write-offs of property, plant and equipment.	7	(211)	7	(187)
Income tax expenses	(179)	6,057	(318)	6,044
Impairment of accounts receivable	65	(58)	41	(58)
Impairment of property, plant and equipment	(23)	-	-	-
Excess of the Group's interest in the fair value of net assets over the cost of the business combination	(1,251)	-	-	-
Interest (income)	(358)	(357)	(356)	(356)
Interest expenses	2,783	2,188	2,742	2,188
Write off inventories to net realizable value	267	1,764	(283)	1,795
Other financial (income) and expenses	222	64	(160)	57
Loss from liquidation of subsidiaries	315	-	273	-
	12,057	49,689	11,300	47,576
<b>Changes in working capital:</b>				
(Increase) in inventories	(3,711)	(8,976)	(9,095)	(9,006)
(Increase) decrease in trade receivables	(140)	7,540	(4,280)	7,548
Decrease (increase) in prepayments	808	(482)	799	(477)
(Increase) in other receivables	(1,650)	(1,886)	(1,601)	(1,869)
(Decrease) increase in trade payables	(6,889)	(5,860)	1,359	(5,550)
Increase (decrease) other accounts payable	1,142	(1,125)	4,279	(1,097)
Income tax paid	(4,645)	-	(4,644)	-
Interest paid	(2,783)	(2,188)	(2,742)	(2,188)
<b>Net cash flows (to) from operating activities</b>	<b>(5,811)</b>	<b>35,147</b>	<b>(4,625)</b>	<b>34,937</b>
<b>Cash flows from (to) investing activities</b>				
(Acquisition) of intangible assets and property, plant and equipment.	(13,585)	(14,171)	(14,841)	(14,195)
Proceeds on sale of property, plant and equipment	665	705	657	704
Acquisition of subsidiaries	207	-	-	-
Sale of investments available for sale	14	-	14	-
Repayment of loans granted	3,986	4,174	3,984	4,174
Loans granted	(2,919)	(4,459)	(2,875)	(4,459)
Interest received	358	357	356	356
<b>Net cash flows (to) investing activities</b>	<b>(11,274)</b>	<b>(13,357)</b>	<b>(12,705)</b>	<b>(13,420)</b>
<b>Cash flows from (to) financing activities</b>				
Dividends paid	-	(968)	-	(968)
Grants received	1,064	3,435	-	3,435
Loans received	23,389	6,219	22,457	6,219
Repayment of loans	(3,723)	(28,787)	(2,196)	(28,787)
Financial lease payments	(7,649)	(3,133)	(6,482)	(3,133)
<b>Net cash flows from (to) financial activities</b>	<b>13,081</b>	<b>(28,234)</b>	<b>13,779</b>	<b>(23,234)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(4,004)</b>	<b>(1,481)</b>	<b>(3,551)</b>	<b>(1,717)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>13,053</b>	<b>14,534</b>	<b>12,423</b>	<b>14,140</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>9,049</b>	<b>13,053</b>	<b>8,872</b>	<b>12,423</b>

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

The consolidated financial statements and financial statements were approved on 16 March 2009 and signed by:

  
Robertas Pažemeckas  
Acting Director

  
Dalia Geciene  
Chief Accountant



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**1. GENERAL INFORMATION**

Žemaitijos Pienas AB (hereinafter the Company) is a joint stock company registered in the Republic of Lithuania. The address of its registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984. The Company's shares are traded on the Current List of the Vilnius Stock Exchange.

As of 31 December 2008 the share capital of the Company was LTL'000 48,375, which consisted of 48,375,000 ordinary shares with a nominal value of LTL 1 each.

During the extraordinary shareholder's meeting on 8 February 2008, the decision was made to change the par value of the Company's shares from LTL 10 per share to LTL 1 per share and to replace each share held by shareholders by 10 shares accordingly.

As of 31 December 2007 the share capital of the Company was LTL'000 48,375, which consisted of 4,837,500 ordinary shares with a nominal value of LTL 10 each.

All the shares are issued, subscribed and fully paid.

The Company did not hold any own shares as of 31 December 2008 and 31 December 2007.

The major shareholder of Žemaitijos Pienas AB is the general manager of the Company Mr. Algirdas Pažemeckas. As of 31 December 2008 Mr. Algirdas Pažemeckas owned 44.15% of the authorized share capital (31 December 2007 - 40.74%). As of 31 December 2008 Skandinaviska Enskilda Banken (investment fund) clients had 7.94% (31 December 2007 - 7.99%), Klaipėdos Pienas AB had 7.45% (31 December 2007 - 6.77%), Mrs. Ona Šunokienė - 5.4% (31 December 2007 - 3.83%) of shares. There is no information available if there is any other single shareholder with the shareholding of 5% or more.

As of 31 December 2008 the Group consisted of Žemaitijos Pienas AB and the following subsidiaries (hereinafter the Group):

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2008	Cost of investment 2007	Net assets as of 31 December 2008	Main activities
Šilutės Rambynas ABF	Klaipėdos str. 3, Šilutė, Lithuania	87.82%	87.82%	10,878	-	12,538	Cheese production and selling
Sodžiaus Pienas ŽŪK	Šilalės str. 35, Laukuva, Lithuania	15.09%	100%	105	105	1,305	Milk collection services
Tarpučių Pienas ŽŪK	Klaipėdos str. 3, Šilutė, Lithuania	10.08%	100%	50	50	482	Milk collection services
Telšių Autoservisas AB	Mažeikių str. 4, Telšiai, Lithuania	37.49%	100%	-	393	(33)	Repair of vehicles
Žemaitijos Pieno Žaliava UAB	Sedos str. 35, Telšiai, Lithuania	100%	100%	-	1,000	718	Milk collection services
				<b>11,033</b>	<b>1,548</b>		

As of 31 December 2007 companies Sodžiaus Pienas ŽŪK and Tarpučių Pienas ŽŪK were controlled indirectly, and for the investment in Telšių Autoservisas AB impairment loss in the amount LTL'000 393 was recognized. During the year 2008 the Company's subsidiaries Žemaitijos Pieno Žaliava UAB and Telšių Autoservisas UAB were liquidated.

According to IFRS a subsidiary is an entity that is controlled by another entity (known as the parent) and control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries fully controlled by the parent even if the Company's owning is less than 50%.

As of 31 December 2008 the number of employees of the Company was 1,636 (as of 31 December 2007 - 1,762). As of 31 December 2008 the number of employees of the Group was 1,839 (as of 31 December 2007 - 1,875).



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In 2008 the Company and the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2008. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Company's and the Group's accounting policies.

*a) Standards, amendments and interpretations effective in 2008, but not relevant to the Group's and the Company's accounting policies*

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's and the Company's accounting policies:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets' (effective on or after 1 July 2008);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Effective date and transition' (effective on or after 1 July 2008, not yet endorsed by the EU);
- IFRIC 14, IAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008), provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement;
- IFRIC 11, IFRS 2 – 'Group and treasury share transactions' (effective from 1 March 2007), 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;
- IFRIC 12 'Service Concession Arrangements' (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements.

*b) Standards, amendments and interpretations that are issued, but not yet effective and have not been early adopted by the Group and the Company*

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) 'Borrowing Costs' (effective for accounting periods beginning on or after 1 January 2009). According to this amendment borrowing costs, that are directly attributable to the acquisition, construction and production of a qualifying asset, should form part of the cost of that asset;
- 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 of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amendment deals with vesting conditions and cancellations;
- 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);
- IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost;
- IAS 27 (Revised) 'Consolidated and separate financial statements' (effective from 1 July 2009, not yet endorsed by EU);
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009, not yet endorsed by EU). The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice to measure the non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed;
- IFRS 1 (Revised) 'First-time Adoption of IFRS' (effective for accounting periods beginning on or after 1 January 2009, not yet endorsed by EU);
- Amendments to IFRS 1 'First-time Adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' – Cost of Investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009);



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in LTL thousands unless otherwise stated)

- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items' (effective for accounting periods beginning on or after 1 July 2009, not yet endorsed by EU);
- In May 2008 the Board of IASB issued its first omnibus of amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IFRS 7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009, not yet endorsed by EU). The standard clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009); The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers;
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). The interpretation specifies how customer loyalty programs should be accounted for;
- IFRIC 15 'Agreements for the Construction of Real Estate' (effective for accounting periods beginning on or after 1 January 2009, not yet endorsed by EU);
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective October 1, 2008, not yet endorsed by EU);
- IFRIC 17 'Distribution of Non-cash Assets to Owners' (effective for accounting periods beginning on or after 1 July 2009, not yet endorsed by EU); and
- IFRIC 18 'Transfers of Assets from Customers' (effective for transfers of assets from customers received on or after 1 July 2009, not yet endorsed by EU).

The Group's and Company's management is of the opinion that adoption of these standards in the future will not significantly impact the financial statements of the Group and the Company.



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

The financial statements and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards ("IFRSs") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Group/the Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's and the Group's financial statements had they been endorsed by the EU at the balance sheet date.

#### **Basis of the preparation of the financial statements**

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value.

The financial year of the Company and other companies of the Group coincides with the calendar year.

The financial statements are presented in national Lithuanian currency – Litas (LTL).

The principal accounting policies are set out below:

#### **Basis of consolidation and business combination**

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

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

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the income statement.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets and liabilities recognized.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intercompany transactions, balances, income, expenses and unrealized profits (losses) between Group companies are eliminated on consolidation.

#### **Business combinations involving entities under common control**

Business combinations involving entities under common control are outside the scope of IFRS 3. However, the Group's accounting policy for such business combinations is as follows. For acquisitions that took place starting from April 2004 the Group companies account for business combinations involving entities under common control using the purchase method. The management believes that the purchase method combined with external expert valuations of the fair values used in the deals ensure the best treatment of the situations faced by the Group to present the true and fair view.

#### **Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or their groups) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in LTL thousands unless otherwise stated)

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Investments in subsidiaries

Investments in subsidiaries in the Company's stand alone balance sheet are recognized at cost. The dividend income from the investment is recognized only to the extent that the dividends are received from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

#### Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Group and the Company do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. Amortisation expenses of intangible assets are included into operating expenses.

#### Software

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software and licenses are amortized over a period of 3 years.

Costs incurred in order to restore or maintain the expected future economic benefits expects from the originally assessed standard of performance of existing software systems are recognized as an expense when the restoration or maintenance work is carried out.

#### Property, plant and equipment

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

Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

Depreciation of property, plant and equipment, other than construction-in-progress, is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Estimated useful lives of property, plant and equipment are as follows:

Buildings	20 - 40 years
Machinery and equipment	5 years
Vehicles and other equipment	4 - 10 years

The Group capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

#### Investment property

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20 - 40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

#### Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group and the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Inventories**

Inventories are initially measured at cost and are subsequently measured at the lower of cost and net realizable value. The First-In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labor cost, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Financial assets**

Financial assets are recognized on the Company's and the Group's balance sheet when the Company and the Group becomes a party to the contractual provisions of the instrument.

#### Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "Loans and receivables". Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

#### Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are debited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less those are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

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#### **Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavorable, or a derivative or non-derivative contract that will or may be settled in the Company's own equity instruments.

#### Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

#### The effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### **Fair value of financial instruments**

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where, in the opinion of the management, the carrying amounts of financial assets and financial liabilities recorded at amortized cost differ materially from their carrying value, such fair values are separately disclosed in the notes to the financial statements.

#### **Grants**

Grants are accounted for on an accrual basis, i.e. grants are credited to income statement in the periods when related expenses, which they are intended to compensate, incur.

#### Grants related to assets

Grants related to assets include asset acquisition financing and non-monetary grants. Initially such grants are recorded at the fair value of the corresponding assets and subsequently credited to the income statement over the useful lives of related non-current assets.

#### Grants related to income

Grants related to income are received as a reimbursement for expenses already incurred or as a compensation for unearned revenue, and also all other grants than those related to assets. Grants are recognized when they are received or there is a reasonable assurance that they will be received.

#### **Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Company and the Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

#### The Company and the Group as lessee

Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for VAT estimated customer returns, rebates and other similar allowances. Revenue is recognized on an accrual basis. Revenues are recognized in the financial statements irrespective of cash inflows, i.e. when they are earned.



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in LTL thousands unless otherwise stated)

#### Revenue from sales of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company and the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Revenue from rendering services

Revenue from rendering services are recognized on performance of the services.

Interest income is recognized on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. Received interest is recorded in the cash flow statement as cash flows from investing activities.

Dividend income is recognized when the right to shareholders to receive payment is established. Received dividends are recorded in the cash flow statement as cash flows from investing activities

#### **Expense recognition**

Expenses are recognized on an accrual basis when incurred.

#### **Foreign currency**

Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

<u>2008</u>		<u>2007</u>	
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
1 USD	= 4.8872 LTL	1 USD	= 4.9567 LTL
1 LVL	= 2.4507 LTL	1 LVL	= 2.3572 LTL

All resulting gains and losses relating to transactions in foreign currencies are recorded in the income statement in the period in which they arise. Gains and losses on translation are credited or charged to the income statement using foreign exchange rates prevailing at the year-end.

#### **Provisions**

Provisions are recognized when the Company and the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **Taxation**

Income tax charge consists of the current and deferred income tax.

#### Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The income tax rate applied for the Company and the Group was 15%. A 3% Provisional Social Tax rate was effective for 2008. From 1 January 2009 the income tax rate is 20% in the Republic of Lithuania.

#### Deferred income tax

Deferred income tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits of the Group and the Company will be available to allow all or part of the asset to be recovered.



## **ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### **EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

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Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or asset realized.

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

#### Current and deferred income tax for the period

Current and deferred income tax is charged or credited to profit or loss, except when they relate to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

#### **Segments**

In these financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

The Group and the Company does not split its activities into separate segments, as Management believes that the Group and the Company does not sell the products, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Group and the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments. The Group and the Company separates these geographical segments: Lithuania, Other Baltic States, Other European countries, USA and others.

#### **Contingencies**

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

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

#### **Subsequent events**

Post balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

#### **Related parties**

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.



## ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

### EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in LTL thousands unless otherwise stated)

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's and the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

##### Judgments

In the process of applying the Group's and the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

##### *Operating Lease Commitments—Group and Company as Lessor*

The Group and the Company has entered into commercial property leases on its investment property portfolio. The Group and the Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

##### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### *Impairment of non-financial assets*

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

##### *Impairment of financial assets*

At each balance sheet date, the Group and the Company reviews the financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. As of 31 December 2008 the Group and the Company recognized impairment losses for financial assets in amount of LTL'000 65 and LTL'000 41, respectively (2007 – none).

##### *Deferred Tax Assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized tax losses in Group's financial statements as of 31 December 2008 and 31 December 2007 was LTL nil and the unrecognized tax losses in the Group's financial statements as of 31 December 2008 – LTL'000 921 (31 December 2007 – LTL'000 7). Further details are provided in Note 23.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**5. PROPERTY, PLANT AND EQUIPMENT**

As of 31 December property, plant and equipment of the Group consisted of the following:

The Group	Land, buildings and construc- tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Acquisition cost</b>						
<b>As of 31 December 2006</b>	<b>15,099</b>	<b>87,686</b>	<b>13,604</b>	<b>13,792</b>	<b>38</b>	<b>130,219</b>
- additions	237	2,933	6,878	836	9,463	20,347
- disposals, write-offs	(253)	(1,414)	(502)	(3,267)	-	(5,436)
- transfers	221	-	-	-	(221)	-
<b>As of 31 December 2007</b>	<b>15,304</b>	<b>89,205</b>	<b>19,980</b>	<b>11,361</b>	<b>9,280</b>	<b>145,130</b>
- additions	1,030	23,278	1,616	1,035	4,384	31,343
- acquisition of a subsidiary	6,798	11,248	7,556	804	4,053	30,459
- disposals, write-offs	(35)	(4,692)	(183)	(369)	(157)	(5,436)
- transfers from investment property	8,481	-	-	-	-	8,481
- transfers	6,605	4,160	-	13	(10,778)	-
<b>As of 31 December 2008</b>	<b>38,183</b>	<b>123,199</b>	<b>28,969</b>	<b>12,844</b>	<b>6,782</b>	<b>209,977</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2006</b>	<b>4,841</b>	<b>63,532</b>	<b>6,126</b>	<b>8,810</b>	-	<b>83,309</b>
- depreciation	473	9,806	3,278	2,354	-	15,911
- disposals, write-offs	(98)	(1,262)	(395)	(3,086)	-	(4,841)
<b>As of 31 December 2007</b>	<b>5,216</b>	<b>72,076</b>	<b>9,009</b>	<b>8,078</b>	-	<b>94,379</b>
- depreciation	880	8,846	4,437	1,598	-	15,761
- acquisition of a subsidiary	2,421	6,770	2,604	485	-	12,280
- transfers from investment property	3,811	-	-	-	-	3,811
- disposals, write-offs	(14)	(4,522)	(128)	(321)	-	(4,985)
<b>As of 31 December 2008</b>	<b>12,314</b>	<b>83,170</b>	<b>15,922</b>	<b>9,840</b>	-	<b>121,246</b>
<b>Accumulated impairment losses</b>						
<b>As of 31 December 2006</b>	-	-	<b>2</b>	<b>75</b>	-	<b>77</b>
- reversal of impairment losses	-	-	(2)	(75)	-	(77)
<b>As of 31 December 2007</b>	-	-	-	-	-	-
- reversal of impairment losses	-	-	-	(2)	(21)	(23)
- acquisition of subsidiary	233	-	-	12	28	273
<b>As of 31 December 2008</b>	<b>233</b>	-	-	<b>10</b>	<b>7</b>	<b>250</b>
<b>Net book value:</b>						
<b>As of 31 December 2007</b>	<b>10,088</b>	<b>17,129</b>	<b>10,971</b>	<b>3,283</b>	<b>9,280</b>	<b>50,751</b>
<b>As of 31 December 2008</b>	<b>25,636</b>	<b>40,029</b>	<b>13,047</b>	<b>2,994</b>	<b>6,775</b>	<b>88,481</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

As of 31 December property, plant and equipment of the Company consisted of the following:

<b>The Company</b>	<b>Land, buildings and construc- tions</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Other property, plant and equipment</b>	<b>Construction in progress and prepayments</b>	<b>Total</b>
<b>Acquisition cost</b>						
<b>As of 31 December 2006</b>	<b>12,290</b>	<b>86,146</b>	<b>13,569</b>	<b>11,924</b>	<b>38</b>	<b>123,967</b>
- additions	236	2,933	6,878	836	9,463	20,346
- disposals, write-offs	(252)	(1,414)	(500)	(2,936)	-	(5,102)
- transfers from investment property	2,361	-	-	-	-	2,361
- transfers	221	-	-	-	(221)	-
<b>As of 31 December 2007</b>	<b>14,856</b>	<b>87,665</b>	<b>19,947</b>	<b>9,824</b>	<b>9,280</b>	<b>141,572</b>
- additions	76	23,267	1,471	969	3,011	28,794
- disposals, write-offs	(12)	(4,594)	(65)	(363)	(157)	(5,191)
- transfers	6,333	344	-	9	(6,686)	-
<b>As of 31 December 2008</b>	<b>21,253</b>	<b>106,682</b>	<b>21,353</b>	<b>10,439</b>	<b>5,448</b>	<b>165,175</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2006</b>	<b>3,975</b>	<b>62,296</b>	<b>6,093</b>	<b>7,323</b>	-	<b>79,687</b>
- depreciation	378	9,503	3,278	2,047	-	15,206
- disposals, write-offs	(98)	(1,262)	(395)	(2,829)	-	(4,584)
- transfers from investment property	813	-	-	-	-	813
<b>As of 31 December 2007</b>	<b>5,068</b>	<b>70,537</b>	<b>8,976</b>	<b>6,541</b>	-	<b>91,122</b>
- depreciation	451	8,399	4,137	1,523	-	14,510
- disposals, write-offs	(1)	(4,427)	(17)	(315)	-	(4,760)
<b>As of 31 December 2008</b>	<b>5,518</b>	<b>74,509</b>	<b>13,096</b>	<b>7,749</b>	-	<b>100,872</b>
<b>Net book value</b>						
<b>As of 31 December 2007</b>	<b>9,788</b>	<b>17,128</b>	<b>10,971</b>	<b>3,283</b>	<b>9,280</b>	<b>50,450</b>
<b>As of 31 December 2008</b>	<b>15,735</b>	<b>32,173</b>	<b>8,257</b>	<b>2,690</b>	<b>5,448</b>	<b>64,303</b>

For the year ended 31 December 2008 the depreciation charge of the Group's and the Company's property, plant and equipment amounts to LTL'000 15,761 and LTL'000 14,510 (31 December 2007 - LTL'000 15,911 and LTL'000 15,206). Amounts of LTL'000 4,674 and LTL 4,386 of the Group and the Company for the year 2008 (2007 - LTL'000 3,973) each have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production costs of the Group and the Company for the year 2008 and 2007.

Property, plant and equipment of the Company with a net book value of LTL'000 18,628 as of 31 December 2008 (31 December 2007 - LTL'000 18,743) was pledged to banks as a collateral for the loans received by the Company. As of 31 December 2008 the subsidiary Šilutės Rambynas ABF has also pledged the property, plant and equipment with the net book value of LTL'000 49 for the loans received by the Company (31 December 2007 - LTL'000 54) (Note 14).

As of 31 December 2008 the Group's and the Company's property, plant and equipment having a carrying amount of LTL'000 21,284 and LTL'000 18,735 (31 December 2007: LTL'000 8,464) were acquired under finance lease.

As of 31 December 2008 part of property, plant and equipment of the Group and the Company with the acquisition cost of LTL'000 69,998 and LTL'000 65,639 respectively, was fully depreciated (31 December 2007 - LTL'000 52,727) but was still in active use.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**6. INVESTMENT PROPERTY**

As of 31 December investment property consisted of the following:

	<u>The Group</u>	<u>The Company</u>
<b>Acquisition cost</b>		
<b>As of 31 December 2006</b>	<b>8,481</b>	<b>10,842</b>
- transfers to property, plant and equipment	-	(2,361)
<b>As of 31 December 2007</b>	<b>8,481</b>	<b>8,481</b>
- additions	-	954
- transfers to property, plant and equipment	(8,481)	-
<b>As of 31 December 2008</b>	<b>-</b>	<b>9,435</b>
<b>Accumulated depreciation</b>		
<b>As of 31 December 2006</b>	<b>3,174</b>	<b>3,921</b>
- depreciation	450	516
- transfers to property, plant and equipment	-	(813)
<b>As of 31 December 2007</b>	<b>3,624</b>	<b>3,624</b>
- depreciation	187	450
- transfers to property, plant and equipment	(3,811)	-
<b>As of 31 December 2008</b>	<b>-</b>	<b>4,074</b>
<b>Net book value</b>		
<b>As of 31 December 2007</b>	<b>4,857</b>	<b>4,857</b>
<b>As of 31 December 2008</b>	<b>-</b>	<b>5,361</b>

The fair value of investment property approximates its book value.

As of 31 December 2008 the Group's depreciation of investment property amounted to LTL'000 187 (2007 - LTL'000 450). The Company's depreciation of the investment property for the year 2008 amounted to LTL'000 450 (2007 - LTL'000 516). Depreciation has been included into other operating expenses in the Group's and the Company's income statement (Note 21).

The Company's investment property in 2008 and 2007 represents rented property to Šilutės Rambynas ABF.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

**7. LOANS GRANTED**

As of 31 December loans granted consisted of the following:

	<u>The Group</u>		<u>The Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Loans granted	3,213	5,031	3,182	5,031
Less: current portion of loans granted	(2,089)	(2,840)	(2,080)	(2,840)
	<b>1,124</b>	<b>2,191</b>	<b>1,102</b>	<b>2,191</b>

Part of these loans is non-interest bearing. The fair value of non-interest bearing loans is LTL'000 456 (2007 - LTL'000 1,006) and it is determined by discounting using the effective interest rate of 10.68% (2007 - 6%) for similar loans.

As of 31 December the remaining non-current loans granted bear 5-7% fixed interest rate.

All granted loans are in LTL. Loan's payback period is 1 - 9 years.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**8. INVENTORIES**

As of 31 December inventories consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Raw materials	12,698	11,139	10,402	11,137
Finished goods and work in process	48,293	33,985	42,715	33,985
Goods for resale	4,754	3,654	4,754	3,654
	65,745	48,778	57,871	48,776
Less: write off to net realizable value	(2,756)	(2,489)	(2,206)	(2,489)
<b>Total</b>	<b>62,989</b>	<b>46,289</b>	<b>55,665</b>	<b>46,287</b>

In the year 2008 the Group and the Company wrote off unusable inventories amounting to LTL'000 215 (2007 - LTL'000 287). This amount is accounted for in the operating expenses in the income statement.

As of 31 December 2008 part of the Company's inventories in the amount of LTL'000 825 (2007 - LTL'000 2,350) were held at Šilutės Rambynas ABF warehouse.

As of 31 December for loans received from the banks the Company pledged inventories for LTL'000 32,160, which are held in the Company and subsidiary's Šilutės Rambynas ABF premises (Note 14).

**9. TRADE ACCOUNTS RECEIVABLE**

As of 31 December trade accounts receivable consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Trade accounts receivable	26,762	26,882	25,657	26,880
Receivable from related parties	3,045	12,563	7,342	12,557
	29,807	39,445	32,999	39,437
Less: impairment loss	(65)	-	(41)	-
<b>Total</b>	<b>29,742</b>	<b>39,445</b>	<b>32,958</b>	<b>39,437</b>

Changes in impairment loss for doubtful trade accounts receivables for 2008 and 2007 are included into operating expenses in the income statement. The change in impairment loss for trade accounts receivable increased operating expenses of the year 2008.

Trade receivables are non-interest bearing and are generally on 30 - 90 days terms.

Movements in the allowance for impairment of trade accounts receivable were as follows:

	The Group		The Company	
	2008	2007	2008	2007
<b>Balance as of 31 December 2007</b>	-	-	-	-
Impairment loss	65	-	41	-
<b>Balance as of 31 December 2008</b>	<b>65</b>	<b>-</b>	<b>41</b>	<b>-</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

The ageing analysis of trade accounts receivable as of 31 December 2008 and 2007 is as follows:

The Group	Trade accounts receivable neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 3 months	3 - 6 months	6 - 9 months	9 - 12 months	More than 1 year	
2007	21,936	4,873	36	3	-	34	26,882
2008	25,596	551	596	15	2	2	26,762

The Company	Trade accounts receivable neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 3 months	3 - 6 months	6 - 9 months	9 - 12 months	More than 1 year	
2007	21,936	4,871	36	3	-	34	26,880
2008	24,560	521	559	15	2	-	25,657

**10. OTHER ACCOUNTS RECEIVABLE**

As of 31 December other accounts receivables consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Income tax paid in advance	3,351	-	3,351	-
Current portion of long-term loans granted	2,089	2,851	2,080	2,840
VAT receivable	2,492	3,404	2,393	3,404
Other receivables	435	462	212	408
<b>Total</b>	<b>8,367</b>	<b>6,717</b>	<b>8,036</b>	<b>6,652</b>

**11. CASH AND CASH EQUIVALENTS**

As of 31 December cash and cash equivalents consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Cash at bank	8,246	11,967	8,085	11,357
Cash on hand	803	1,086	787	1,066
<b>Total</b>	<b>9,049</b>	<b>13,053</b>	<b>8,872</b>	<b>12,423</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**12. SHAREHOLDERS' EQUITY**

As of 31 December 2008 the share capital consisted of 48,375,000 ordinary shares with the par value of LTL 1 each. As of 31 December 2007 the share capital consisted of 4,837,500 ordinary shares with the par value of LTL 10 each. As of 31 December 2008 and 2007 all shares were fully paid.

During the extraordinary shareholder's meeting on 8 February 2008, the decision was made to change the par value of the Company's shares from LTL 10 per share to LTL 1 per share and to replace each share held by shareholders by 10 shares accordingly, that was a stock split of 10 shares for 1 share. All references in the accompanying financial statements to the number of common shares for the calculation of per share amounts purpose for 2008 and 2007 have been restated to reflect the stock split.

As of 31 December 2008 the main shareholders of the Company were:

	2008		2007	
	Number of shares	Ownership, %	Number of shares	Ownership, %
Pažemeckas Algirdas SKANDINAVISKA ENSKILDA BANKEN CLIENTS code 50203290810, SERGELS TORG 2 10640 STOCKHOLM, SWEDEN	21,355,870	44.15	1,970,587	40.74
Klaipėdos Pienas AB Company's code 240026930, Šilutės pl. 33, 91107 Klaipėda	3,841,690	7.94	537,027	11.10
Šunokienė Ona	3,601,844	7.45	327,562	6.77
Other small shareholders	2,614,430	5.40	261,443	5.40
	16,961,166	35.06	1,740,881	35.99
<b>Total</b>	<b>48,375,000</b>	<b>100</b>	<b>4,837,500</b>	<b>100</b>

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. As of 31 December 2008 the legal reserve of the Company was fully formed. The legal reserve cannot be distributed to the shareholders.

Other reserves

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

**13. GRANTS RECEIVED**

The movement of grants for the years ended 31 December consisted of the following:

	The Group	The Company
<b>Grants received</b>		
<b>As of 31 December 2006</b>	<b>9,338</b>	<b>7,723</b>
- received	3,435	3,435
<b>As of 31 December 2007</b>	<b>12,773</b>	<b>11,158</b>
- received	-	-
- acquisition of subsidiary	3,405	-
<b>As of 31 December 2008</b>	<b>16,178</b>	<b>11,158</b>
<b>Accumulated amortisation</b>		
<b>As of 31 December 2006</b>	<b>7,265</b>	<b>5,999</b>
- amortisation	2,509	2,193
<b>As of 31 December 2007</b>	<b>9,774</b>	<b>8,192</b>
- amortisation	1,181	1,019
- acquisition of subsidiary	1,066	-
<b>As of 31 December 2008</b>	<b>12,021</b>	<b>9,211</b>
<b>Net book value</b>		
<b>As of 31 December 2007</b>	<b>2,999</b>	<b>2,966</b>
<b>As of 31 December 2008</b>	<b>4,157</b>	<b>1,947</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

On 11 April 2002 the Company signed a financing agreement with the National Payment Agency at the Ministry of Agriculture (hereinafter the NPA) in relation to the Company's Modernisation Project (hereinafter in this paragraph the Project). The financing is provided from the European Commission (hereinafter EC) Aid and National Budget in accordance with SAPARD financing programme Agriculture and Fishery Manufacturing and Marketing Modernisation. The NPA obliged to provide the Company with a total financing of LTL'000 7,723 for the implementation of the Project approved by the NPA on 29 March 2002. 75% of the support was provided by the EC and the remaining 25% by the National Budget. As of 31 December 2008 the net book value of the grant – none (31 December 2007 – LTL'000 308).

In 2003 the subsidiaries Tarpučių Pienas ŽŪK and Sodžiaus Pienas ŽŪK received financing amounting to LTL'000 611 and LTL'000 1,005, respectively, from the NPA for the acquisition of milk refrigeration equipment. The financing program provided from the European Commission Aid and the National Budget in accordance with SAPARD financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The net book value of the grants received by Tarpučių Pienas ŽŪK and Sodžiaus Pienas ŽŪK was equal to LTL nil and LTL'000 31 respectively, as of 31 December 2008 (31 December 2007 – LTL nil and LTL'000 33).

On 9 March 2006 the Company signed a subsidy agreement with the NPA in relation to the Company's Manufacturing Lines Modernisation Project (hereinafter in this and successive paragraphs the Project). The financing is provided from the European Commission Aid and National Budget in accordance with the financing programme Agriculture and Fishery Manufacturing and Marketing Modernisation. The Company has been provided with total financing of LTL'000 3,435 (or 44.72% of the total planned Project value). LTL'000 2,533 (or 73.74%) of the support will be provided by the EU Structural Funds and the remaining LTL'000 902 (or 26.26%) – by the National Budget for the implementation of the Project. As of 31 December 2008 the net book value of the grant was LTL'000 1,947 (31 December 2007 – LTL'000 2,658).

On 5 July 2005 Šilutės Rambynas ABF signed a financing agreement with the public institution Lithuanian Environmental Investment Fund for a grant of LTL'000 300. The grant is intended for the reconstruction of the boiler-house of Šilutės Rambynas ABF, whereupon the type of fuel used will be changed from fuel oil to liquid gas. The amount of the grant can not exceed 70% of the total value of the reconstruction project. The reconstruction of the boiler-house was finished in December 2005, therefore starting from 1 January 2006 the grant amount started to be amortized within 8 years of useful life reducing the depreciation expenses of the boiler-house accounted for under cost of sales caption. As of 31 December 2008 the balance of the grant was LTL'000 187 (31 December 2007 – LTL'000 225).

On 24 January 2006 ABF Šilutės Rambynas signed a financing agreement with the National Paying Agency under the Ministry of Agriculture for a grant of LTL'000 3,395. The grant is intended for the project "Šilutės Rambynas ABF Modernisation of Milk Processing Production" including the acquisition of new vehicles and equipment. Šilutės Rambynas ABF purchased new equipment and vehicles in June and July 2006, therefore starting from the next month after acquisition the amortization of the subsidy within the 5-year useful live period was started reducing the depreciation expenses of the equipment and vehicles accounted for under cost of sales. The subsidy to Šilutės Rambynas ABF was paid out on 31 January 2007. The amortisation of the grant in the amount of LTL'000 621 reduced the 2007 cost of sales. As of 31 December 2008, the balance of the grant was LTL'000 1,992 (31 December 2007 – LTL'000 2,223).

The amortisation of the financing was offset against depreciation and accounted for under depreciation and amortisation caption in cost of sales in the statement of income for 2008 and 2007. The granted financing is amortized in equal parts over the depreciation period of the assets acquired using the financing received.

**14. BORROWINGS**

As of 31 December the Group's borrowing consisted of the following:

	Contract date	Maturity date	Curren- cy	Interest rate	Balance	
					2008	2007
DnB NORD bankas AB	2004 05	2012 06	EUR	LIBOR EUR 6 months + 0.75%	20,717	10,358
SEB bankas AB	2003 07	2009 12	LTL	4.7%	16,000	5,505
DnB NORD bankas AB	2006 06	2013 04	EUR	LIBOR EUR 3 months + 0.75%	4,915	4,915
Laviga UAB	2008 12	2009 02	EUR	6%	1,603	-
SEB bankas AB	2002 05	2009 05	EUR	LIBOR EUR 6 months + 0.85%	556	2,752
SEB bankas AB	2007 08	2009 12	EUR	LIBOR EUR 3 months + 0.92%	386	-
<b>Total</b>					<b>44,177</b>	<b>23,530</b>
Less: short-term borrowings					(1,603)	-
Less: current portion of long-term borrowing					(16,942)	(2,899)
<b>Total long-term borrowings</b>					<b>25,632</b>	<b>20,631</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

As of 31 December the Company's borrowings consisted of the following:

	Contract date	Maturity date	Currency	Interest rate	Balance	
					2008	2007
DnB NORD bankas AB	2004 05	2012 06	EUR	LIBOR EUR 6 months + 0.75%	20,717	10,358
SEB bankas AB	2003 07	2009 12	LTL	4.7 proc.	16,000	5,505
DnB NORD bankas AB	2006 06	2013 04	EUR	LIBOR EUR 3 months + 0.75%	4,915	4,915
Laviga UAB	2008 12	2009 02	EUR	6 proc.	1,603	-
SEB bankas AB	2002 05	2009 05	EUR	LIBOR EUR 6 months + 0.85%	556	2,752
<b>Total</b>					<b>43,791</b>	<b>23,530</b>
Less: short-term borrowings					(1,603)	-
Less: current portion of long-term borrowing					(16,556)	(2,899)
<b>Total long-term borrowings</b>					<b>25,632</b>	<b>20,631</b>

Terms of repayment of non-current borrowings to the Group and the Company were as follows:

	The Group		The Company	
	2008	2007	2008	2007
Within one year	18,545	2,899	18,159	2,899
In the second year	1,499	12,429	1,499	12,429
In the third year	1,499	2,775	1,499	2,775
In the fourth and thereafter	22,634	5,427	22,634	5,427
<b>Total</b>	<b>44,177</b>	<b>23,530</b>	<b>43,791</b>	<b>23,530</b>

Parts of loans of the Group and the Company at the end of the year in national and foreign currencies were as follows:

	The Group		The Company	
	2008	2007	2008	2007
EUR	28,177	18,025	27,791	18,025
LTL	16,000	5,505	16,000	5,505
<b>Total</b>	<b>44,177</b>	<b>23,530</b>	<b>43,791</b>	<b>23,530</b>

As of 31 December 2008 the weighted average effective interest rate of loans outstanding was 5.5% (31 December 2007 - 5.3%). Variable interest rates are related to 6 and 3 months EUR LIBOR.

As of 31 December 2008 and 2007 for the loans received the Company has pledged inventories for LTL'000 32,160 (Note 8), which are in the Company's and subsidiary's Šilutės Rambynas ABF premises. In addition, the Company pledged property, plant and equipment with the net book value of LTL'000 18,628 as of 31 December 2008 (LTL'000 18,743 as of 31 December 2007) (Note 5). As of 31 December 2008 the subsidiary Šilutės Rambynas ABF also pledged the property, plant and equipment with the net book value of LTL'000 49 (31 December 2007 - LTL'000 54) for Company's loans.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**15. OBLIGATIONS UNDER FINANCE LEASE**

As of 31 December the Group's and the Company's obligations under finance lease consisted of the following:

	2008		2007	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<b>The Group</b>				
Within one year	5,355	4,642	2,700	2,316
In the second to fifth years inclusive	14,426	13,370	6,007	5,553
<b>Minimum lease payments</b>	<b>19,781</b>	<b>18,012</b>	<b>8,707</b>	<b>7,869</b>
Less: future finance charges	(1,769)		(838)	
<b>Present value of minimum lease payments</b>	<b>18,012</b>		<b>7,869</b>	
	2008		2007	
<b>The Company</b>	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	4,521	4,325	2,700	2,316
In the second to fifth years inclusive	12,990	12,043	6,007	5,553
<b>Minimum lease payments</b>	<b>17,941</b>	<b>16,368</b>	<b>8,707</b>	<b>7,869</b>
Less: future finance charges	(1,574)		(838)	
<b>Present value of minimum lease payments</b>	<b>16,368</b>		<b>7,869</b>	

As of 31 December 2008 and 2007 the Group's and the Company's finance lease agreements were in EUR.

As of 31 December 2008 the interest rate of the balance of finance lease liability, which is equal to LTL'000 2,858, varies depending on the 6 month EUR LIBOR plus 0.8%, LTL'000 2,541 varies depending on the 6 month EUR LIBOR plus 0.7%, LTL'000 156 varies depending on the 12 month EUR LIBOR plus 1.1%, LTL'000 10,813 varies depending on the 6 month EUR LIBOR plus 0.63%.

As of 31 December 2007 the interest rate of the balance of financial lease liability, which is equal to LTL'000 4,613, varies depending on the 6 month EUR LIBOR plus 0.8%, LTL'000 3,256 varies depending on the 6 month EUR LIBOR plus 0.7%.

**16. OPERATING LEASE**

The Group and the Company concluded several contracts of operating lease. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional loans or additional lease agreements. For the year ended 31 December 2008 the lease expenses of the Group and the Company amounted to LTL'000 3,714 (LTL'000 3,111 for the year ended 31 December 2007) and are accounted for under operating expenses services caption.

Future lease payments according to the signed operating lease contracts are as follows:

	The Group		The Company	
	2008	2007	2008	2007
Within one year	3,752	3,062	3,081	2,891
In the second to fifth years	3,279	2,293	595	2,135
After five years	-	3	-	-
<b>Total</b>	<b>7,031</b>	<b>5,358</b>	<b>3,676</b>	<b>5,026</b>

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



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**17. PAYABLES**

Terms and conditions of financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Other payables are non-interest bearing and have an average term of one month.
- Interest payable is normally settled monthly throughout the financial year.
- For terms and conditions relating to related parties refer to Note 28.

**18. OTHER LIABILITIES**

As of 31 December other liabilities consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Accrued expenses	4,704	2,210	4,164	2,135
Wages and salaries payable	2,740	4	2,518	-
Social security payable	1,124	1,334	999	1,334
Taxes payable, other than income tax	817	316	95	22
Advances received	809	795	809	795
Other current liabilities	17	323	16	230
<b>Total</b>	<b>10,211</b>	<b>4,982</b>	<b>8,601</b>	<b>4,516</b>

**19. INFORMATION ON SEGMENTS**

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading (prime segment). Sales by geographical segments (secondary segments) are presented below:

	The Group		The Company	
	2008	2007	2008	2007
<b>Sales</b>				
Lithuania	252,900	217,876	252,582	217,937
Other Baltic States and CIS members	119,153	121,971	119,153	121,971
Other Europe countries	94,476	116,887	94,476	116,887
USA	148	-	148	-
Other	5,152	7,492	5,152	7,492
<b>Total</b>	<b>471,829</b>	<b>464,226</b>	<b>471,511</b>	<b>464,287</b>

The investments made by the Group and the Company during the year 2008 for the acquisition of property, plant and equipment and intangible assets amounted to LTL'000 31,346 and LTL'000 29,752 (2007 – LTL'000 20,729 and LTL'000 20,728). As all assets of the Group and the Company are in Lithuania, all acquisitions are related with the geographical segment of Lithuania.

**20. OPERATING EXPENSES**

As of 31 December operating expenses consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
Wages, salaries and social security*	35,754	34,189	35,060	34,072
Services	14,322	12,991	14,703	13,124
Marketing	9,255	8,851	9,198	8,851
Fuel and spare parts	6,002	5,762	5,926	5,762
Depreciation and amortisation	5,086	4,294	4,792	4,293
Change in write off of inventories to net realizable value	267	1,764	(283)	1,795
Materials	1,708	2,350	1,687	2,350
Taxes, other than income tax	943	948	858	945
Other expenses	5,952	4,541	6,127	4,231
<b>Total</b>	<b>79,289</b>	<b>75,690</b>	<b>78,068</b>	<b>75,423</b>

\* For the year ended 31 December 2008 the Group's and the Company's wages, salaries and social security expenses amounted to LTL'000 71,705 and LTL'000 63,350, respectively (2007 – LTL'000 61,172 and LTL'000 59,517). LTL'000 35,754 and LTL'000 35,060, respectively, of this amount are accounted for in the operating expenses (2007 – LTL'000 34,189 and LTL'000 34,072) and LTL'000 2,725 of this amount are accounted for in the other operating expenses (2007 – LTL'000 4,228). The remaining expenses are accounted for in production cost for the year.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**21. OTHER OPERATING INCOME AND EXPENSES**

As of 31 December other operating income and expenses consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
<i>Other operating income</i>				
Gain on sales of property, plant and equipment and goods for resale sales income	3,692	8,258	3,682	6,234
Transportation service	1,040	932	1,040	932
Rental income	970	1,831	928	1,831
Income of the canteen	875	831	875	831
Other	3,633	2,624	4,288	4,715
	<b>10,210</b>	<b>14,476</b>	<b>10,813</b>	<b>14,543</b>
<i>Other operating expenses</i>				
Cost of goods for resale sold	(4,646)	(6,467)	(4,646)	(6,652)
Other	(917)	(2,053)	(840)	(2,109)
	<b>(5,563)</b>	<b>(8,520)</b>	<b>(5,486)</b>	<b>(8,761)</b>
<b>TOTAL</b>	<b>4,647</b>	<b>5,956</b>	<b>5,327</b>	<b>5,782</b>

**22. OTHER FINANCIAL INCOME AND EXPENSES**

As of 31 December other financial income and expenses consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
<i>Income from financial activity</i>				
Interest income	358	357	356	356
	<b>358</b>	<b>357</b>	<b>356</b>	<b>356</b>
<i>Expenses from financial activity</i>				
Foreign currency exchange (loss)	(168)	(56)	(160)	(58)
Other financial expenses	(54)	(8)	-	-
	<b>(222)</b>	<b>(64)</b>	<b>(160)</b>	<b>(58)</b>
<b>TOTAL</b>	<b>136</b>	<b>293</b>	<b>196</b>	<b>298</b>

**23. INCOME TAX EXPENSE (BENEFIT)**

For the years ended 31 December 2008 and 31 December 2007 income tax consisted of the following:

	The Group		The Company	
	2008	2007	2008	2007
(Loss) profit before tax	(3,889)	30,567	(5,123)	30,292
Tax at the statutory income taxes rate	(583)	5,502	(768)	5,452
Tax effect of non-taxible differences	678	334	694	379
Change in deferred tax asset valuation allowance	-	76	-	69
Change in deferred tax due to change in income tax rate (2008 - 15%, 2009 - 20%)	(274)	145	(244)	144
<b>Income tax expenses (benefit) charged to the income statement</b>	<b>(179)</b>	<b>6,057</b>	<b>(318)</b>	<b>6,044</b>
Prior year income tax correction	(2)	-	-	-
Current period income tax	-	6,412	-	6,399
Change in deferred income tax	(177)	(355)	(318)	(355)
<b>Income tax expenses (benefit) charged to the income statement</b>	<b>(179)</b>	<b>6,057</b>	<b>(318)</b>	<b>6,044</b>
Effective tax rate	5%	20%	6%	20%



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

	The Group		The Company	
	2008	2007	2008	2007
<b>Deferred income tax asset</b>				
Tax loss carry forward	921	7	-	-
Inventories	491	373	331	373
Accrued vacation reserve	627	314	606	314
Other accrued expenses	34	35	34	35
<b>Total deferred income tax asset</b>	<b>2,073</b>	<b>729</b>	<b>971</b>	<b>722</b>
<b>Less: valuation allowance</b>	(921)	(76)	-	(69)
<b>Deferred income tax liabilities</b>				
Difference in property, plant and equipment depreciation rates	(322)	-	-	-
Fair value adjustment for property, plant and equipment at acquisition of a subsidiary	(318)	-	-	-
<b>Total deferred income tax liabilities</b>	<b>(640)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred income tax asset, net</b>	<b>512</b>	<b>653</b>	<b>971</b>	<b>653</b>

**24. ACQUISITION AND DISPOSAL OF SUBSIDIARY**

On 20 May 2008, the Company acquired 87.72% of the issued share capital of Šilutės Rambynas ABF for the price of LTL 10,878,000. This transaction has been accounted for using purchase method.

The excess of the Group's interest in the fair value of net assets over the cost of the business combination, is as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
<b>Šilutės Rambynas ABF net assets acquired:</b>			
Intangible assets	9	-	9
Property, plant and equipment	16,340	1,592	17,932
Investments available for sale	129	-	129
Deferred income tax asset	120	-	120
Inventories	13,256	-	13,256
Prepayments	46	-	46
Trade and other receivables	1,322	-	1,322
Cash and cash equivalents	207	-	207
<b>Total assets</b>	<b>31,429</b>	<b>1,592</b>	<b>33,021</b>
<b>Total liabilities</b>	<b>(18,892)</b>	<b>(318)</b>	<b>(19,210)</b>
<b>Acquired net assets</b>	<b>12,537</b>	<b>1,274</b>	<b>13,811</b>
Group's share of net assets (87.82%)			12,129
Acquisition cost			10,878
Excess of the Group's interest in the fair value of net assets over the cost of the business combination			(1,251)
Net cash outflow arising on acquisition:			
Cash consideration paid*			-
Cash and cash equivalents acquired			(207)

\* As of 20 May 2008 from the related party Žemaitijos Pieno Investicija UAB the Company acquired 82.87% shares of Šilutės Rambynas ABF for LTL'000 10,878. Shares were paid not in cash, consideration was made setting liabilities and accounts receivable between Žemaitijos Pieno Investicija UAB and Šilutės Rambynas ABF.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

In April and September 2008 the Company liquidated its subsidiaries Žemaitijos Pieno Žaliava UAB and Telšių Autoservisas UAB. Subsidiaries had no active operations in 2008 and by the Company's Board decision not consolidated from 1 January 2008.

The net assets of the disposed subsidiaries during 2008 and the gain (loss) on disposal were as follows:

	<b>Žemaitijos Pieno Žaliava UAB</b>	<b>Telšių Autoservisas UAB</b>	<b>Total</b>
Property, plant and equipment	155	-	155
Current assets	605	-	605
Total liabilities	(32)	(33)	(65)
<b>Net assets</b>	<b>728</b>	<b>(33)</b>	<b>695</b>
Disposal of investments carrying value in the parent company's balance sheet	1,000	-	1,000
(Loss) on disposal of subsidiaries*	(272)	(33)	(305)

\*(Loss) on disposal of subsidiaries is included in operating expenses.

**25. EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year.

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net (loss) profit attributable to the shareholders	(3,710)	24,510	(4,805)	24,248
Weighted average number of shares (in thousands)	48,375	48,375	48,375	48,375
<b>Basic earnings (loss) per share (LTL)</b>	<b>(0.08)</b>	<b>0.51</b>	<b>(0.10)</b>	<b>0.50</b>

Diluted earnings per share equal to basic earnings per share as there were no potential shares issued as of 31 December 2008 and 2007.

**26. DIVIDENDS PER SHARE**

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Dividends paid	-	968	-	968
Number of shares (thousands)	48,380	4,838	48,380	4,838
<b>Dividends per share (LTL)</b>	<b>-</b>	<b>0.20</b>	<b>-</b>	<b>0.20</b>

**27. COMMITMENTS AND CONTINGENCIES**

During the reorganization that took place in 2004 the Company transferred the finance lease agreement with Nordea Finance Lithuania UAB to a newly established company AB Žemaitijos Pieno Investicija. Assets and related liabilities were transferred according to a trilateral agreement between the Company, Žemaitijos Pieno Investicija AB and Nordea Finance Lithuania UAB dated 14 November 2004. On the same day the Company signed a guarantee agreement with Nordea Finance Lithuania UAB, and guaranteed for liabilities of Žemaitijos Pieno Investicija AB, according to the transferred agreement. The liability of AB Žemaitijos Pieno Investicija according to this agreement was LTL'000 812 as of 31 December 2008 (LTL'000 1,736 as of 31 December 2007).

As of 31 December 2008 and 2007 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

At 31 December 2008 and 2007 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**28. FINANCIAL RISK MANAGEMENT**Credit risk

As of 31 December the maximum exposures of the Company and the Group to credit risk consisted of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	9,049	13,053	8,872	12,423
Loans granted	1,124	2,191	1,102	2,191
Trade accounts receivable	29,742	39,445	32,958	39,437
Other accounts receivable	8,367	6,717	8,036	6,652
<b>Total financial assets</b>	<b>48,282</b>	<b>61,406</b>	<b>50,968</b>	<b>60,703</b>

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

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

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties. The counterparties are splitted into group, other related parties and non related parties and starting from the end of 2007 newly concluded trading agreements include paragraph about credit limits assigned according to the volume and amount of sales. Some customers are also required to make prepayments.

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

Interest rate risk

Part of the Group's loans is with variable rates, related to EUR LIBOR, which creates an interest rate risk. There were no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2008 and 2007.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, (increase and decrease in percentage points was determined based on Lithuanian economic environment and the Company's and the Group's historical experience) with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity, other than current year profit impact.

	<b>Increase/ decrease in percentage points</b>	<b>Effect on profit before tax</b>
<b>2008</b>		
EUR	+0.5	(173)
EUR	-0.5	173
<b>2007</b>		
EUR	+0.5	(90)
EUR	-0.5	90

Liquidity risk

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



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities as of 31 December 2008 and 2007 based on contractual undiscounted payments.

<b>The Group</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	-	-	18,545	25,632	-	44,177
Interest bearing finance lease liabilities	-	1,074	3,568	13,370	-	18,012
Trade payables	-	29,450	-	-	-	29,450
<b>Balance as of 31 December 2008</b>	<b>-</b>	<b>30,524</b>	<b>22,113</b>	<b>39,002</b>	<b>-</b>	<b>91,639</b>
Interest bearing loans and borrowings	-	-	4,082	23,119	-	27,201
Interest bearing finance lease liabilities	-	583	2,117	6,007	-	8,707
Trade payables	-	26,470	-	-	-	26,470
<b>Balance as of 31 December 2007</b>	<b>-</b>	<b>27,053</b>	<b>6,199</b>	<b>29,126</b>	<b>-</b>	<b>62,378</b>
	<b>-</b>	<b>3,471</b>	<b>15,914</b>	<b>9,876</b>	<b>-</b>	<b>29,261</b>

<b>The Company</b>	<b>On demand</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	-	-	18,159	25,632	-	43,791
Interest bearing finance lease liabilities	-	758	3,567	12,043	-	16,368
Trade payables	-	27,257	-	-	-	27,257
<b>Balance as of 31 December 2008</b>	<b>-</b>	<b>28,015</b>	<b>21,726</b>	<b>37,675</b>	<b>-</b>	<b>87,416</b>
Interest bearing loans and borrowings	-	-	4,082	23,119	-	27,201
Interest bearing finance lease liabilities	-	583	2,117	6,007	-	8,707
Trade payables	-	26,470	-	-	-	26,470
<b>Balance as of 31 December 2007</b>	<b>-</b>	<b>27,053</b>	<b>6,199</b>	<b>29,126</b>	<b>-</b>	<b>62,378</b>
	<b>-</b>	<b>962</b>	<b>15,527</b>	<b>8,549</b>	<b>-</b>	<b>25,038</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

Foreign exchange risk

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

As of 31 December 2008 monetary assets and liabilities stated in various currencies were as follows:

	The Group		The Company	
	Assets	Liabilities	Assets	Liabilities
LTL	61,076	66,700	36,016	66,700
EUR	17,764	29,270	17,764	29,188
USD	24	-	24	-
LVL	2,612	128	2,612	128
<b>Total</b>	<b>81,476</b>	<b>96,098</b>	<b>56,416</b>	<b>96,016</b>

As of 31 December 2007 monetary assets and liabilities stated in various currencies were as follows:

	The Group		The Company	
	Assets	Liabilities	Assets	Liabilities
LTL	49,289	43,725	48,586	45,140
EUR	11,521	18,928	11,521	18,928
USD	7	-	7	-
LVL	589	34	589	34
<b>Total</b>	<b>61,406</b>	<b>62,687</b>	<b>60,703</b>	<b>64,102</b>

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

Fair value of financial assets and liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term loans.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

A comparison between carrying amount and fair value of all of the Group and the Company financial instruments presented in financial statements by it's categories is set out below:

The Group	Carrying amount		Fair value	
	2008	2007	2008	2007
<b>Financial assets</b>				
Cash	9,049	13,053	9,049	13,053
Investments available for sale	-	14	-	14
Loans granted	1,112	2,191	1,112	2,191
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	18,012	7,869	18,012	7,869
Floating interest rate borrowings	26,574	18,025	26,574	18,025
Fixed interest rate borrowings	17,603	5,505	17,292	5,189



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

The Company	Carrying amount		Fair value	
	2008	2007	2008	2007
<b>Financial assets</b>				
Cash	8,872	12,423	8,872	12,423
Available for sale investments	-	14	-	14
Loans granted	1,102	2,191	1,102	2,191
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Obligations under finance lease and hired purchase contracts	16,368	7,869	16,368	7,869
Floating interest rate borrowings	28,188	18,025	28,188	18,025
Fixed interest rate borrowings	17,603	5,505	17,292	5,189

The fair value of borrowings has been calculated by discounting the expected future cash flows at market interest rates. The fair value of loans and other financial assets have been calculated using market interest rates.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade accounts receivable, current accounts payable and short-term loans approximates fair value.
- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans with variable and fixed interest rates approximates their carrying amounts.

Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes of capital management during the years ended 31 December 2008 and 2007.

The Company is obliged to keep its equity not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements for the Group and the Company.

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as sustainable performance indicators.

	The Group		The Company	
	2008	2007	2008	2007
Non-current liabilities (including deferred taxes and grants)	43,799	29,183	39,622	29,150
Current liabilities	62,851	39,508	58,342	40,848
<b>Total liabilities</b>	<b>106,650</b>	<b>68,691</b>	<b>97,964</b>	<b>69,998</b>
<b>Equity attributable to equity holders of the parent</b>	<b>92,483</b>	<b>96,155</b>	<b>91,068</b>	<b>95,873</b>
<b>Debt* to equity ratio</b>	<b>115%</b>	<b>71%</b>	<b>108%</b>	<b>73%</b>

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

Moreover the Company has externally imposed capital requirements from the banks. It is required that equity/assets ratio is not less than 30%. The management monitors that the Company is in compliance with the requirement. No other capital management tools are used. No breaches of required ratio occurred during the year.



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

**29. RELATED PARTY TRANSACTIONS**

The parties are considered related when one party has the power to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company are as follows:

- Žemaitijos Pieno Investicija AB (company related to the shareholder);
- Šilutės Rambynas ABF (company related to the shareholder) (2008 – subsidiary);
- Baltijos Mineralinių Vandenių Kompanija UAB (company related to the shareholder));
- Klaipėdos Pienas AB (company related to the shareholder));
- Žemaitijos Prekyba UAB (company related to the shareholder));
- Gimtinės Pienas UAB (company related to the shareholder)).

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

The related party transactions and the balances at the end of the year were as follows:

	The Group		The Company	
	2008	2007	2008	2007
<b>i) Sales</b>				
<i>To the Group</i>				
Sodžiaus Pienas ŽŪK	-	-	49	-
Tarpučių Pienas ŽŪK	-	-	2	-
Šilutės Rambynas ABF	-	17	782	17
	-	17	833	17
<i>To Related parties</i>				
Baltijos Mineralinių Vandenių Kompanija UAB	3,508	167	3,508	167
Klaipėdos Pienas AB	315	238	315	238
Žemaitijos Pieno Investicija AB	63	214	63	214
Žemaitijos Prekyba UAB	567	27	567	27
Gimtinės Pienas UAB	1	-	1	-
	4,454	646	4,454	646
<b>Sales of inventory and services</b>				
<i>To the Group</i>				
Sodžiaus Pienas ŽŪK	-	-	-	121
Tarpučių Pienas ŽŪK	-	-	-	2
Žemaitijos Pieno Žaliava UAB	-	-	-	2
Šilutės Rambynas ABF	-	3,688	81,340	3,688
	-	3,688	81,340	3,813
<i>To Related parties</i>				
Baltijos Mineralinių Vandenių Kompanija UAB	1,169	6,443	1,169	6,443
Klaipėdos Pienas AB	2,303	3,833	2,303	3,833
Žemaitijos Pieno Investicija AB	47	71	47	71
Gimtinės Pienas UAB	-	5	-	5
Žemaitijos Prekyba UAB	38,367	31,310	38,367	31,310
	41,886	41,662	41,886	41,662
<b>Total Sales</b>	<b>46,340</b>	<b>46,013</b>	<b>128,513</b>	<b>46,138</b>
	The Group		The Company	
	2008	2007	2008	2007
<b>ii) Purchases</b>				
<i>From the Group</i>				
Sodžiaus Pienas ŽŪK	-	-	3,666	19,340
Tarpučių Pienas ŽŪK	-	-	1,164	6,914
Šilutės Rambynas ABF	-	97,835	110,298	97,807
	-	97,835	115,128	124,061
<i>From Related parties</i>				
Gimtinės Pienas UAB	94	-	94	-
Klaipėdos Pienas AB	11,177	7,814	11,177	7,814
Baltijos Mineralinių Vandenių Kompanija UAB	553	404	553	404
Žemaitijos Pieno Investicija AB	2,496	2,639	2,496	2,639
Žemaitijos Prekyba UAB	85	727	85	727
	14,405	11,584	14,405	11,584
<b>Total Purchases</b>	<b>14,405</b>	<b>109,419</b>	<b>129,533</b>	<b>135,645</b>



**ŽEMAITIJOS PIENAS AB**

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2008**

(All amounts in LTL thousands unless otherwise stated)

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>iii) Year-end balances of accounts receivable</b>				
<i>Group</i>				
Telšių Autoservisas UAB	-	-	-	20
Sodžiaus Pienas ŽŪK	-	-	-	-
Tarpučių Pienas ŽŪK	-	-	-	-
Šilutės Rambynas ABF	-	8,563	3,834	8,563
	-	8,563	3,834	8,583
<i>Related parties</i>				
Baltijos Mineralinių Vandenių Kompanija UAB	407	1,816	407	1,816
Gimtinių Pienas UAB	-	90	-	63
Žemaitijos Prekyba UAB	3,099	2,094	3,099	2,095
Klaipėdos Pienas AB	-	-	-	-
Žemaitijos Pieno Investicija AB	-	-	-	-
	3,506	4,000	3,506	3,974
	<b>3,506</b>	<b>12,563</b>	<b>7,340</b>	<b>12,557</b>

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>iv) Year-end balances of payables</b>				
<i>Group</i>				
Sodžiaus Pienas ŽŪK	-	-	994	1,517
Tarpučių Pienas ŽŪK	-	-	204	697
Žemaitijos Pieno Žaliava UAB	-	-	-	604
Šilutės Rambynas ABF	-	14	-	-
	-	14	1,198	2,818
<i>Related parties</i>				
Žemaitijos Pieno Investicija AB	618	1,229	618	1,229
Klaipėdos Pienas AB	4,478	1,717	4,478	1,717
Žemaitijos Prekyba UAB	-	-	-	-
Gimtinių Pienas UAB	21	-	21	-
Baltijos Mineralinių Vandenių Kompanija UAB	-	-	-	-
	5,117	2,946	5,117	2,946
	<b>5,117</b>	<b>2,960</b>	<b>6,315</b>	<b>5,764</b>

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2008 and 2007, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Group performs a significant part of transactions with related parties (Žemaitijos Pieno Investicija AB group companies) and both profit and sales of the Group are significantly influenced by transactions with AB Žemaitijos Pieno Investicija group. This includes the following: rent of fixed assets, sales of raw materials, full buy up of cheeses from Šilutės Rambynas ABF, buy up of ice - cream from Klaipėdos Pienas AB, distribution services' sales to Baltijos Mineralinių Vandenių Kompanija UAB and product sales to Žemaitijos Prekyba UAB.

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL'000 2,235 for the year ended 31 December 2008 (LTL'000 2,955 for the year ended 31 December 2007). In 2008 and 2007 the Group's and the Company's number of management personnel was 9 and 8, respectively. The management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued.

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