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Register of Legal Persons

Independent auditor's report to the shareholders of AB Žemaitijos Pienas

Report on the Financial statements

We have audited the accompanying financial statements of AB Žemaitijos Pienas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and consolidated financial statements of AB Žemaitijos Pienas and its subsidiaries AB Telšių Autoservisas, UAB Žemaitijos Pieno Žaliava, ŽŪK Tarpučių Pienas, ŽŪK Sodžiaus Pienas (hereinafter the Group), which comprise the balance sheets as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. 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 accompanying financial statements present fairly, in all material respects, the financial position of AB Žemaitijos Pienas and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read Management Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 28 February 2008.

The audit was completed on 28 February 2008.

Žemaitijos Pienas AB (hereinafter, the Company) is a public limited liability company registered in the Republic of Lithuania. Its registered office is at Sedos g. 35, Telšiai.

The Company is producing dairy products and selling them in Lithuanian and foreign markets. The Company has several wholesale units with warehouses and vehicles in major cities of Lithuania. The Company has started its activities in 1984. Shares of the Company are traded on the Current List of the Vilnius Stock Exchange.

On 31 December 2007 and 2006, the authorised capital of the Company was equal to LTL 48,375,000, it was divided into 4,837,500 ordinary registered shares with the par value of LTL 10 each. All the shares are issued, subscribed for and fully paid up. On 31 December 2007 and 2006, subsidiaries of the Company did not hold any shares in the Company, the Company did not hold its own shares, either.

According to the legislation of the Republic of Lithuania, the annual report, including financial statements, prepared by the management of the Company is to be approved by the annual general meeting of shareholders.

During 2007:

- Ekoagros VšĮ confirmed that Žemaitijos Pienas AB conformed to the requirements of Council Regulation (EEC No. 2092/91) and the rules for ecological agriculture. The production of the following organic products was certified (certificate No. SER-K-07-00010, registration No. 060670P):

- 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.

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

- The State Metrology Service made an evaluation and issued certificates to the effect that the quantity in the packaging conformed to the provisions of the Technical Regulations for the Quantity of Packed Products and Control of Measurement Vessels and permitted the producer to use the mark "e" on the packaging of the following dairy products:

- yogurt *Magija*, 350 g;
- 30% fat sour cream, 200 g, 450 g;
- dessert curds with fruit and yogurt, 130 g;
- glazed curd bars, 40 g, 45 g;
- melted cheese, 175 g.

- During the 16th international specialised exhibition AgroBalt 2007, organic yogurt, 2,5% fat, was awarded a gold medal.

- In 2007, a meeting of the evaluation committee for the annual competition Lithuanian Product of the Year, 2007 was held in the Lithuanian Confederation of Industrialists. A product of our Company – organic cheese *Dobilas* – was nominated for a gold medal.

During 2007 the Transport Department purchased 19 Mercedes - Benz 816 vehicles with lifting capacity of 3.3 tons and 6 Iveco 65C15 vehicles with lifting capacity of 3 tons for taking the finished products to customer stores. These vehicles

replaced 25 depreciated Iveco vehicles. For transportation of raw milk, two milk tankers were purchased: SCANIA 124G and Mercedes - Benz 1844 with lifting capacity of 12,000 litres of milk, and 2 trailers with lifting capacity of 12,000 litres each. They replaced 2 depreciated KAMAZ articulated lorries. Also, the Company purchased 3 trailers with lifting capacity of 12,000 litres, which were assigned to milk tankers so that the transport fleet would be used as well as possible. Renewing its car fleet, the Company purchased 17 cars for sales and administration personnel: 4 ŠKODA OKTAVIA; 10 VW CADDY and 3 AUDI. Heavy vehicles of Žemaitijos Pienas AB in 2007 carried 64,600 tons of dairy products and mineral water to affiliates of Žemaitijos Pienas AB and central warehouses of its customers. Delivery vehicles carried 57,400 tons of dairy products and mineral water from warehouses of the Company's affiliates to its customers. Milk tankers of Žemaitijos Pienas AB carried 274,300 tons of raw milk.

Comparison of the sales of the Company in 2006 and in 2007 according to product groups (in thousands of LTL):

Product groups	**2006**	**2007**	**Change**
Dairy products	360,606	446,797	23.92%
Ice-cream	15,137	13,646	-9.9%
Frozen products	1,838	1,500	-18.39%
Water products	428	272	-36.45%
Products of other companies	5,231	2,011	-61.6%
Total	**383,240**	**464,287**	**21.1%**

In 2007 export accounted for over 53% of all the sales. The Company exported mostly to European countries and Russia. The export of fermented cheeses accounted for 57% of total exports, cream – 20%, whey and skim milk powder – 12.2%, other goods – 10.8%.

The turnover of the group in 2007 was LTL 464 million, which is 21.1% more than in 2006. The group earned LTL 24.5 million of audited net profit.

On 31 December 2007 the group had 1,875 employees on the list. The amount of the work pay and the social insurance tax during 2007 was equal to LTL 61,172,000. In comparison with 2006, the average work pay for one employee increased by 25% or 540 LTL per month.

In 2007 the group purchased 335,400 tons of milk (according to R+B). In comparison with 2006, the quantity of purchased milk is 3.69% more, though the production of milk in Lithuania increased in average by 3.9% in 2007. The average annual price for 1 ton (R+B) of milk was LTL 709 or 15.5% more (LTL 110 per ton) than in 2006 and LTL 3 per ton more than the usual average milk price in Lithuania.

This year the group is planning to purchase 342,600 tons of milk or 2.13% more than in 2007. The planned average price for one ton is LTL 1,012.

On 31 December 2007 Žemaitijos Pienas AB had the following subsidiaries:

Subsidiary	**Registered office of the subsidiary**	**Number of shares**	**Par value of a share in LTL**	**Share of interest in capital held by the group**
Telšių Autoservisas AB	Mažeikių g. 4, Telšiai	15,205	17	37.49%
Žemaitijos Pieno Žaliava UAB	Sedos g. 35, Telšiai	100,000	10	100%
Tarpučių Pienas ŽŪK	Klaipėdos g. 3, Šilutė	1	10	10.08%

Sodžiaus Pienas ŽŪK	Šilalės g. 35, Laukuva, Šilalės raj.	1	10	15.09%

Telšių Autoservisas AB, Tarpučių Pienas ŽŪK and Sodžiaus Pienas ŽŪK are subsidiaries of Žemaitijos Pienas AB because the Company controls activities of these companies though it holds less than 50% of their shares. Telšių Autoservisas AB did not perform any activities from July 2000 to 31 December 2007. Telšių Autoservisas AB is currently in liquidation. It is planned that the liquidation and removal of the company from the Register of Legal Persons will be completed by 1 May 2008.

Žemaitijos Pienas AB has 7 affiliates in various cities of Lithuania:

1. Vilnius affiliate, Algirdo g. 40 / 13, Vilnius;
2. Kaunas affiliate, Kėdainių g. 8A, Kaunas;
3. Anykščiai affiliate, Vilties g. 4A, Anykščiai;
4. Alytus affiliate, Putinų g. 23, Alytus;
5. Klaipėda affiliate, Šilutės plentas 33, Klaipėda;
6. Panevėžys affiliate, J.Janonio g. 9, Panevėžys;
7. Telšiai affiliate, Sedos g. 35, Telšiai.

Žemaitijos Pienas AB has 2 points of milk purchase:

1. Laukuva dairy, Šilalės g. 35, Laukuva, Šilalės raj.;
2. Plungė dairy, Dariaus ir Girėno g. 8, Plungė.

On 9 March 2006 the Company signed an agreement with the National Paying Agency under the Ministry of Agriculture related to the Company modernisation project. According to this agreement the Company was to be granted financial assistance for its project in the amount of LTL 3.4 million. The total value of the project is LTL 8 million. In January 2007, Žemaitijos Pienas AB using money from the co-funding, structural funds of the European Union, as well as its own funds, implemented the second phase of the project "Modernisation of Production Lines of Žemaitijos Pienas AB". During two phases of the project, the modernisation of cream packing was carried out – from now on the consumers will have various quantities of products available to them. The acquired equipment for cooling of kefir (fermented milk) before packing improved the quality of this product. Sales plans made before the acquisition of the equipment were justified. Milk input and cream production lines were also modernised, a curd mixer and a helical screw air compressor were purchased. The Company implemented the automation of the boiler room and creation of computer work stations, assembled new butter, cheese and dry dairy products packing equipment. Operations were chosen taking into account the needs of the Company after a long and detailed analysis of submitted proposals and adjustments to the currently formed business development vision. The funds assigned for this project have been used in full.

Žemaitijos Pienas AB created conditions for the production development, production of better quality goods and improved working conditions.

On 9 March 2006 the Company signed an agreement with the Ministry of Social Security and Labour of the Republic of Lithuania for assignment of financial assistance for the project "Improvement of General Competences and Skills of Žemaitijos Pienas AB Employees". According to this agreement the Company expects to be granted financial assistance of up to LTL 810,500. The total amount of the project expenses is LTL 1,365,400; in 2006 the Company used LTL 39,500 or 2.9%, whereas in 2007 it used LTL 720,100 or 53%. The total amount used in 2006 and in 2007 by the Company was LTL 759,700 or 55.7%. This project will be completed by May 2008.

The long-term goals of Žemaitijos Pienas AB 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 Company are as follows:

- to purchase milk on market conditions but in any case paying not more than paid by other market participants purchasing raw milk in Lithuania;

- to maintain the current number of milk producers and to purchase at least 5% more milk than the average growth of milk production in 2008;

- to increase sales at prices favourable 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 of bigger value added;

- to reinforce the marketing function and to promote the corporate name;

- to successfully complete the introduction of the informational computer system in the group companies; to introduce a planning – budgeting system;

- to reduce production expenses and cost of products;

- to drop unprofitable production as soon as possible;

- to reduce distribution expenses;

- to give incentives to employees only for the final result and fulfilment of plans.

The report was considered and approved in the meeting of the Board of Žemaitijos Pienas AB.

Balance sheets

	Notes	Group		Company	
		As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
ASSETS					
Non-current assets					
Intangible assets		571	518	571	517
Property, plant and equipment	4	50,751	46,833	50,450	44,280
Investment property	5	4,857	5,307	4,857	6,921
Available-for-sale investments		14	14	14	14
Investments into subsidiaries	1	-	-	1,000	1,000
Non-current receivables	6	2,191	1,906	2,191	1,906
Deferred income tax asset	21	653	298	653	298
Total non-current assets		**59,037**	**54,876**	**59,736**	**54,936**
Current assets					
Inventories	7	46,289	39,077	46,287	39,076
Prepayments		1,342	859	1,336	859
Trade receivables	8	26,882	31,549	26,880	31,549
Receivables from subsidiaries	26	-	-	20	-
Receivables from other related parties	26	12,563	15,378	12,537	15,378
Other receivables	9	6,717	5,544	6,652	5,496
Cash and cash equivalents	10	13,053	14,534	12,423	14,140
Total current assets		**106,846**	**106,941**	**106,135**	**106,498**
Total assets		**165,883**	**161,817**	**165,871**	**161,434**

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

Balance sheets (cont'd)

	Notes	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
LIABILITIES AND SHAREHOLDERS' EQUITY					
Equity attributable to equity holders of the Company					
Share capital	1, 11	48,375	48,375	48,375	48,375
Legal reserve	11	4,838	4,838	4,838	4,838
Retained earnings		42,942	19,400	42,660	19,380
		96,155	72,613	95,873	72,593
Minority interest		1,037	1,037	-	-
Total shareholders' equity		97,192	73,650	95,873	72,593
Non-current liabilities					
Grants received	12	2,999	2,073	2,966	1,724
Non-current loans	13	20,631	23,173	20,631	23,173
Financial lease obligations	14	5,553	4,599	5,553	4,599
Other non-current liabilities		-	124	-	124
Total non-current liabilities		29,183	29,969	29,150	29,620
Current liabilities					
Current portion of non-current loans	13	2,899	22,913	2,899	22,913
Current portion of non-current financial lease obligations	14	2,316	1,727	2,316	1,727
Trade payables	16	21,703	22,536	20,706	21,763
Payables to subsidiaries	26	-	-	2,818	4,387
Payables to other related parties	26	2,960	6,856	2,946	4,739
Income tax payable		4,648	763	4,644	738
Other current liabilities	17	4,982	3,403	4,519	2,954
Total current liabilities		39,508	58,198	40,848	59,221
Total liabilities and shareholders' equity		165,883	161,817	165,871	161,434

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

General Manager — Algirdas Pažemeckas — 28 February 2008

Chief Accountant — Dalia Geciene — 28 February 2008

Income statements

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Sales	3	464,226	383,258	464,287	383,240
Cost of sales		(362,030)	(310,818)	(362,650)	(311,303)
Gross profit		**102,196**	**72,440**	**101,637**	**71,937**
Operating expenses	18	(75,690)	(61,897)	(75,423)	(61,856)
Other operating income (expenses), net	19	5,956	7,610	5,967	7,701
Profit from operations		**32,462**	**18,153**	**32,181**	**17,782**
Income from financial and investment activities	20	830	378	828	377
(Expenses) from financial and investment activities	20	(2,725)	(2,385)	(2,717)	(2,362)
Profit before income tax		**30,567**	**16,146**	**30,292**	**15,797**
Income tax	21	(6,057)	(3,246)	(6,044)	(3,213)
Net profit		**24,510**	**12,900**	**24,248**	**12,584**
Attributable to:					
Shareholders of the Company		**24,510**	**12,900**	**24,248**	**12,584**
Basic and diluted earnings per share (LTL)	22	5.07	2.67		

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

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Geciene		28 February 2008

Statements of changes in equity

Group	Notes	Equity attributable to equity holders of the Company					
		Share capital	Legal reserve	Retained earnings	Total	Minority interest	Total
Balance as of 31 December 2005		**48,375**	**3,700**	**10,541**	**62,616**	**1,037**	**63,653**
Dividends declared	23	-	-	(2,903)	(2,903)	-	(2,903)
Transfer to legal reserve	11	-	1,138	(1,138)	-	-	-
Net profit for the year		-	-	12,900	12,900	-	12,900
Balance as of 31 December 2006		**48,375**	**4,838**	**19,400**	**72,613**	**1,037**	**73,650**
Dividends declared	23	-	-	(968)	(968)	-	(968)
Net profit for the year		-	-	24,510	24,510	-	24,510
Balance as of 31 December 2007		**48,375**	**4,838**	**42,942**	**96,155**	**1,037**	**97,192**

(cont'd on the next page)

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

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Legal reserve	Retained earnings	Total
Balance as of 31 December 2005		**48,375**	**3,700**	**10,837**	**62,912**
Dividends declared	23	-	-	(2,903)	(2,903)
Transfer to legal reserve	11	-	1,138	(1,138)	-
Net profit for the year		-	-	12,584	12,584
Balance as of 31 December 2006		**48,375**	**4,838**	**19,380**	**72,593**
Dividends declared	23	-	-	(968)	(968)
Net profit for the year		-	-	24,248	24,248
Balance as of 31 December 2007		**48,375**	**4,838**	**42,660**	**95,873**

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

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Cash flow statements

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Cash flows from (to) operating activities					
Net profit		24,510	12,900	24,248	12,584
Adjustments for non-cash items:					
Depreciation and amortisation		16,676	14,674	16,038	14,026
Amortisation of grants received		(2,509)	(1,868)	(2,193)	(1,553)
(Profit) from disposal and write-offs of property, plant and equipment and intangible assets		(211)	(502)	(187)	(502)
Allowance for receivables		(58)	(99)	(58)	(99)
Income tax expenses		6,412	3,246	6,399	3,213
Change in net realisable value of inventories		1,764	-	1,795	-
Result from financial and investment activities	20	1,895	2,007	1,889	1,985
Other non-cash expenses (income)		1,210	(201)	1,179	(179)
		49,689	30,157	49,110	29,475
Changes in working capital:					
(Increase) decrease in inventories		(8,976)	9,531	(9,006)	9,525
Decrease (increase) in trade receivables, receivable from related parties and receivables from subsidiaries		7,540	(15,822)	7,548	(15,457)
Decrease (increase) in prepayments and other current assets		(482)	400	(477)	398
(Increase) decrease in other receivables		(1,886)	3,144	(1,869)	3,177
(Decrease) increase in trade payables, payables to related parties and payables to subsidiaries		(5,860)	1,791	(5,550)	1,985
Income tax (paid)		-	(2,948)	-	(2,927)
(Decrease) increase in other current liabilities		(2,690)	100	(2,631)	234
Net cash flows from operating activities		**37,355**	**26,353**	**37,125**	**26,410**
Cash flows from (to) investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(14,171)	(11,415)	(14,195)	(11,412)
Disposal of property, plant and equipment		705	3,449	704	3,424
Repayment of loans granted		4,174	3,753	4,174	3,753
Loans (granted)		(4,459)	(3,116)	(4,459)	(3,116)
Interest received		357	333	356	332
Net cash flows (to) investing activities		**(13,394)**	**(6,996)**	**(13,420)**	**(7,019)**

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

Cash flow statements (cont'd)

	Group		Company	
	2007	2006	2007	2006
Cash flows from (to) financing activities				
Dividends (paid)	(968)	(2,903)	(968)	(2,903)
Grants received	3,435	-	3,435	-
Loans received	6,219	-	6,219	-
(Repayment) of loans	(28,787)	(10,744)	(28,787)	(10,744)
Financial lease (payments)	(3,133)	(1,971)	(3,133)	(1,971)
Interest (paid)	(2,188)	(2,302)	(2,188)	(2,285)
Net cash flows (to) financial activities	**(25,422)**	**(17,920)**	**(25,422)**	**(17,903)**
Net (decrease) increase in cash and cash equivalents	**(1,481)**	**1,437**	**(1,717)**	**1,488**
Cash and cash equivalents at the beginning of the year	**14,534**	**13,097**	**14,140**	**12,652**
Cash and cash equivalents at the end of the year	**13,053**	**14,534**	**12,423**	**14,140**

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

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Notes to the financial statements

1 General information

AB Žemaitijos Pienas (hereinafter the Company) is a private limited liability 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 2007 and 2006 the share capital of the Company was LTL 48,375 thousand, which consisted of 4,837,500 ordinary shares with a nominal value of LTL 10 each. During the extraordinary shareholder's meeting on 8 February 2008, there was made a decision 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. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2007 and 31 December 2006, the Company also had no its own shares.

The major shareholder of AB Žemaitijos Pienas is the general manager of the Company Mr. Algirdas Pažemeckas. As of 31 December 2007 Mr. Algirdas Pažemeckas owned 40.74% of the authorised share capital (as of 31 December 2006 – 40.74%). As of 31 December 2007 Skandinavska Ensilda Banken (investment fund) clients had 7.99% (11.10% as of 31 December 2006), related party AB Žemaitijos Pieno Investicija Group (Note 26) – 10.18% (8.14% as of December 2006) of shares and Mrs. Ona Šunokienė – 3.83% (5.87% as of 31 December 2006) of shares. There is no information available if there is any other single shareholder with the shareholding of 5% or more.

According to the legislation of the Republic of Lithuania, the annual report, including the financial statements, prepared by the Management of the Company should be approved by the General Shareholders' meeting. The shareholders hold the power to either approve the annual report or not approve it and request a new annual report to be prepared.

As of 31 December 2007 the Group consisted of AB Žemaitijos Pienas and the following subsidiaries (hereinafter the Group):

Company	Registration address	Ownership of the Group	Percentage in consolida-tior	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
AB Telšių Autoservisas	Mažeikių Str. 4, Telšiai, Lithuania	37.49%	100%	393	(76)	(33)	Repair of vehicles
UAB Žemaitijos Pieno Žaliava	Sedos Str. 35, Telšiai, Lithuania	100.00%	100%	1,000	(9)	718	Milk collection services
ŽŪK Tarpučių Pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10.08%	100%	50	24	482	Milk collection services
ŽŪK Sodžiaus Pienas	Šilalės Str. 35, Laukuva, Lithuania	15.09%	100%	105	(1)	1,305	Milk collection services

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentage of sales to a certain company, 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%. AB Telšių Autoservisas is considered a subsidiary because the Company controls its activities, although it owns less than 50% of the shares. AB Telšių Autoservisas and UAB Žemaitijos Pieno Žaliava had no active operations in the years ended 31 December 2007 and 2006. There were no changes from the prior year ownership structure of the Group and in the percentage in consolidation in 2007.

1 General information (cont'd)

As of 31 December 2007 the number of employees of the Company was 1,762 (as of 31 December 2006 – 1,799). As of 31 December 2007 the number of employees of the Group was 1,875 (as of 31 December 2006 – 1,941).

Business reorganisation

Until April 2006 the Company had retail outlets engaged in the Company's products retail sales. Starting from April 2006, the retail activities were transferred to the related party UAB Žemaitijos Prekyba, AB Žemaitijos Pieno Investicija Group company in 2006. Inventories related to retail activities in the amount of LTL 1,854 thousand and part of property, plant and equipment with a net book value of LTL 968 thousand were sold to UAB Žemaitijos Prekyba for LTL 1,854 thousand and LTL 1,031 thousand, respectively.

Until April 2006 the Company has purchased manufacturing of cheese services from the related party ABF Šilutės Rambynas. Starting from April 2006, due to the changed form of the transaction, the Company sells milk and acquires finished goods from ABF Šilutės Rambynas.

Until June 2007 the Company has purchased manufacturing of ice-cream services from a related party AB Klaipėdos Pienas. Starting from June 2007, due to the changed form of the transaction, the Company sells milk and acquires finished goods from AB Klaipėdos Pienas.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2007 are as follows:

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (International Financial Reporting Interpretation Committee), as adopted by the European Union (hereinafter EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures.* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".* This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements.* This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are presented in Note 24.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 8 *Scope of IFRS 2*. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives*. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment*. The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes, therefore this IFRS will not have significant impact for Group's accounting.
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.
- IFRS 8 Operating Segments (effective for annual 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. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

2 Accounting principles (cont'd)

2.1 Basis of preparation (cont'd)

- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 July 2009 once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 July 2009 once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2009). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements – Revised and IAS 23 Borrowing costs – Revised. The Company will apply new standards when they are effective.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has preliminary assessed that the operating segments were the same as the business segments identified under IAS 14 *Segment Reporting*.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Group is still estimating the impact of the adoption of this revision.

IAS 23 Borrowing costs - Revised

Currently all borrowing costs are expensed as incurred. The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. When the Company adopts this standard, borrowing costs related to qualifying assets will be capitalised.

2.2. Significant accounting judgments, estimates and assumptions

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 recognised 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.

2 Accounting principles (cont'd)

2.3 Significant accounting judgments, estimates and assumptions (cont'd)

Impairment of available-for-sale financial assets
The Group and the Company classifies certain assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. As of 31 December 2007 and 31 December 2006 no impairment losses have been recognised for available-for-sale assets. In 2007 the carrying amount of available-for-sale assets was LTL 14 (2006: LTL 14 thousand).

Deferred Tax Assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses in Group's financial statements at 31 December 2007 and 31 December 2006 was LTL nil and the unrecognised tax losses in the Group's financial statements at 31 December 2007 was LTL 7 thousand (2006: LTL 15 thousand). Further details are contained in Note 21.

2.3. Measurement and presentation currency

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, Litas (LTL).

Starting from 2 February 2002, Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.4. Principles of consolidation

The consolidated financial statements of the Group include AB Žemaitijos Pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

In the separate financial statements of the Company the investments into subsidiaries are accounted for at acquisition cost less impairment losses. An assessment of valuation of impairment losses is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

All other investments (there are no associates) in Company's financial statements are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as further disclosed in section 2.10 Financial assets and financial liabilities.

Intercompany balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

2 Accounting principles (cont'd)

2.5. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised 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 Company and the Group 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 amortised 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 capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software and licences are amortised over a period of 3 years.

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

2.6. Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met. All other costs of day-to-day servicing are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

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

The assets' residual values, useful lives and depreciation methods are reviewed periodically, and adjusted if appropriate.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

2.7. 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, including transaction costs, 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.

2 Accounting principles (cont'd)

2.8. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory is fully written-off.

2.9. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits.

2.10. Financial assets and financial liabilities

The Group and the Company recognise financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group and the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.
When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2 Accounting principles (cont'd)

2.10. Financial assets and financial liabilities (cont'd)

Investments

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The category financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Receivables and loans granted

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Borrowing costs

Loan costs are expensed as incurred.

Loans received

Loans are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between the value at the inception and redemption value being recognised in the net profit or loss over the period of the loans.

2 Accounting principles (cont'd)

2.11. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Group and the Company as a lessee

Finance leases, which transfer to the Group and the Company substantially all the risks and benefit incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group and the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

The Group and the Company as a lessor

Leases where the Group and the Company do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease receipts are recognized as an income in the income statement on a straight-line basis over the lease term.

2.12. Grants

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The Group deducts the grant in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The expense related grant is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

The balance of unutilised grants is shown in caption "Grants received" on the balance sheet.

2 Accounting principles (cont'd)

2.13. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The standard income tax rate in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies had to pay an additional 4% tax calculated based on the income tax principles, and for the following year tax starting from 1 January 2007 a 3%. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the temporary difference method on temporary differences. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.14. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

2.15. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

2.16. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances denominated in foreign currencies are translated at period-end exchange rates.

2 Accounting principles (cont'd)

2.17. 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.

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.

2.18. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date and when there is evidence of impairment.

For financial assets carried at amortised cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.19. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.20. 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.

2 Accounting principles (cont'd)

2.21. Guarantees

Financial guarantees provided by the Group are initially recognised in the financial statements at fair value, under Other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognised in the income statement in financial income on a straight - line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties.

2.22. Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.

3 Segment information

For management purposes the activities of the Group and the Company are organised as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group		Company	
	2007	2006	2007	2006
Sales				
Lithuania	217,876	206,253	217,937	206,235
Other Baltic States and CIS countries	121,971	89,108	121,971	89,108
Other European countries	116,887	86,034	116,887	86,034
USA	-	797	-	797
Other	7,492	1,066	7,492	1,066
	464,226	383,258	464,287	383,240

The investments made by the Group and the Company during the year 2007 for the acquisition of property, plant and equipment and intangible assets amounted to LTL 20,729 thousand and LTL 20,728 thousand, respectively (LTL 21,396 thousand and LTL 21,391 thousand respectively in the year ended 31 December 2006). As all assets of the Group and the Company are in Lithuania, all acquisitions are related with the geographical segment of Lithuania.

4 Property, plant and equipment

Group	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2006	15,099	87,686	13,604	13,792	38	130,219
Additions	237	2,933	6,878	836	9,463	20,347
Disposed or written-off assets	(253)	(1,414)	(502)	(3,267)	-	(5,436)
Reclassifications	221	-	-	-	(221)	-
Balance as of 31 December 2007	15,304	89,205	19,980	11,361	9,280	145,130
Accumulated depreciation:						
Balance as of 31 December 2006	4,841	63,532	6,126	8,810	-	83,309
Charge for the year	473	9,806	3,278	2,354	-	15,911
Disposed or written off assets	(98)	(1,262)	(395)	(3,086)	-	(4,841)
Balance as of 31 December 2007	5,216	72,076	9,009	8,078	-	94,379
Impairment losses:						
Balance as of 31 December 2006	-	-	2	75	-	77
Charge for the year	-	-	(2)	(75)	-	(77)
Balance as of 31 December 2007	-	-	-	-	-	-
Net book value as of 31 December 2007	**10,088**	**17,129**	**10,971**	**3,283**	**9,280**	**50,751**
Net book value as of 31 December 2006	**10,258**	**24,154**	**7,476**	**4,907**	**38**	**46,833**

4 Property, plant and equipment (cont'd)

Group	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2005	21,547	76,863	11,602	13,625	-	123,637
Additions	319	13,519	2,142	3,236	1,836	21,052
Disposed or written-off assets	(838)	(2,027)	(204)	(2,920)	-	(5,989)
Transfers to investment property	(8,481)	-	-	-	-	(8,481)
Reclassifications	2,552	(669)	64	(149)	(1,798)	-
Balance as of 31 December 2006	15,099	87,686	13,604	13,792	38	130,219
Accumulated depreciation:						
Balance as of 31 December 2005	6,703	56,577	3,797	8,024	-	75,101
Charge for the year	759	8,663	2,437	2,218	-	14,077
Disposed or written-off assets	(228)	(1,287)	(102)	(1,426)	-	(3,043)
Transfers to investment property	(2,826)	-	-	-	-	(2,826)
Reclassifications	433	(421)	(6)	(6)	-	-
Balance as of 31 December 2006	4,841	63,532	6,126	8,810	-	83,309
Impairment losses:						
Balance as of 31 December 2005	-	-	2	75	-	77
Charge for the year	-	-	-	-	-	-
Balance as of 31 December 2006	-	-	2	75	-	77
Net book value as of 31 December 2006	**10,258**	**24,154**	**7,476**	**4,907**	**38**	**46,833**
Net book value as of 31 December 2005	**14,844**	**20,286**	**7,803**	**5,526**	**-**	**48,459**

4 Property, plant and equipment (cont'd)

Company	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2006	12,290	86,146	13,569	11,924	38	123,967
Additions	236	2,933	6,878	836	9,463	20,346
Disposed or written-off assets	(252)	(1,414)	(500)	(2,936)	-	(5,102)
Transfers from investment property	2,361	-	-	-	-	2,361
Reclassifications	221	-	-	-	(221)	-
Balance as of 31 December 2007	14,856	87,665	19,947	9,824	9,280	141,572
Accumulated depreciation:						
Balance as of 31 December 2006	3,975	62,296	6,093	7,323	-	79,687
Charge for the year	378	9,503	3,278	2,047	-	15,206
Disposed or written-off assets	(98)	(1,262)	(395)	(2,829)	-	(4,584)
Transfers from investment property	813	-	-	-	-	813
Balance as of 31 December 2007	5,068	70,537	8,976	6,541	-	91,122
Net book value as of 31 December 2007	**9,788**	**17,128**	**10,971**	**3,283**	**9,280**	**50,450**
Net book value as of 31 December 2006	**8,315**	**23,850**	**7,476**	**4,601**	**38**	**44,280**

4 Property, plant and equipment (cont'd)

Company	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2005	21,063	75,324	11,567	11,755	-	119,709
Additions	317	13,518	2,142	3,237	1,836	21,050
Disposed or written-off assets	(799)	(2,027)	(204)	(2,920)	-	(5,950)
Transfers from investment property	(10,842)	-	-	-	-	(10,842)
Reclassifications	2,551	(669)	64	(148)	(1,798)	-
Balance as of 31 December 2006	12,290	86,146	13,569	11,924	38	123,967
Accumulated depreciation:						
Balance as of 31 December 2005	6,605	55,645	3,764	6,842	-	72,856
Charge for the year	646	8,357	2,437	1,913	-	13,353
Disposed or written-off assets	(216)	(1,287)	(102)	(1,426)	-	(3,031)
Transfers from investment property	(3,491)	-	-	-	-	(3,491)
Reclassifications	431	(419)	(6)	(6)	-	-
Balance as of 31 December 2006	3,975	62,296	6,093	7,323	-	79,687
Net book value as of 31 December 2006	**8,315**	**23,850**	**7,476**	**4,601**	**38**	**44,280**
Net book value as of 31 December 2005	**14,458**	**19,679**	**7,803**	**4,913**	**-**	**46,853**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year ended 31 December 2007 amounts to LTL 15,911 thousand and LTL 15,206 thousand, respectively (LTL 14,077 thousand and LTL 13,353 thousand in the year 2006, respectively). Amounts of LTL 3,973 thousand for both the Group and the Company for the year 2007 (LTL 4,121 thousand for both for the year 2006) 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 2007.

Property, plant and equipment of the Company with a net book value of LTL 18,743 thousand as of 31 December 2007 (LTL 19,733 thousand as of 31 December 2006) was pledged to banks as a collateral for the loans received by the Company. The related party ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 54 thousand as of 31 December 2007 for the loans received by the Company (Note 13) (LTL 59 thousand as of 31 December 2006). The related party AB Klaipėdos Pienas pledged the property, plant and equipment with the net book value of LTL 3,430 thousand as of 31 December 2006 for the loans received by the Company (Note 13).

Part of property, plant and equipment of the Group and the Company with the acquisition cost of LTL 52,727 thousand was fully depreciated as of 31 December 2007 (LTL 38,567 thousand as of 31 December 2006) but was still in active use.

In 2006 the Company has performed detail analysis of the machinery and equipment account, and it has reclassified assets which qualified for structures to the land, buildings and constructions account with the total net book value of LTL 459 thousand.

5 Investment property

	Group	Company
Cost:		
Balance as of 31 December 2006	8,481	10,842
Transfers to property, plant and equipment	-	(2,361)
Balance as of 31 December 2007	8,481	8,481
Accumulated depreciation:		
Balance as of 31 December 2006	3,174	3,921
Transfers to property, plant and equipment	-	(813)
Charge for the year	450	516
Balance as of 31 December 2007	3,624	3,624
Net book value as of 31 December 2007	**4,857**	**4,857**
Net book value as of 31 December 2006	**5,307**	**6,921**

	Group	Company
Cost:		
Balance as of 31 December 2005	-	-
Transfers from property, plant and equipment	8,481	10,842
Balance as of 31 December 2006	8,481	10,842
Accumulated depreciation:		
Balance as of 31 December 2005	-	-
Transfers from property, plant and equipment	2,826	3,491
Charge for the year	348	430
Balance as of 31 December 2006	3,174	3,921
Net book value as of 31 December 2006	**5,307**	**6,921**
Net book value as of 31 December 2005	-	-

The fair value of investment property approximates its book value.

The Group's rental income from the investment property for the year 2007 amounted to LTL 450 thousand (LTL 348 thousand in 2006). The Company's rental income from the investment property for the year 2007 amounted to LTL 516 thousand (LTL 430 thousand in 2006). Rental income has been included into other operating income in the Group's and the Company's income statement (Note 19).

Investment property in 2007 represents rented property to ABF Šilutes Rambynas. The Group and the Company rents the property due to the changed form of the transaction between the parties (Note 1).

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

6 Non-current receivables

	Group		Company	
	2007	2006	2007	2006
Non-current loans granted	2,191	1,906	2,191	1,906
	2,191	1,906	2,191	1,906

Outstanding balance of non-current loans granted balance represents loans granted to the suppliers of the raw materials and employees of the Group and the Company. Current portion of non-current loans amounted to LTL 2,840 thousand as of 31 December 2007 (LTL 2,839 thousand as of 31 December 2006) is accounted for under other receivables caption in these financial statements.

The maturity of non-current loans granted by the Group and the Company is as follows:

	As of 31 December 2007	As of 31 December 2006
Within one year	2,840	2,839
From one to five years	2,012	1,735
After five years	179	171
Total	5,031	4,745

Part of these loans is non-interest bearing. They are stated at amortised cost in amount of LTL 1,006 thousand (1,083 as of 31 December 2006) and the value of non-interest bearing loans granted is discounted using the effective interest rate of 6% (5% as of 31 December 2006) for similar loans.

The remaining non-current loans granted bear 5 – 7% fixed interest rate (5% as of 31 December 2006).

7 Inventories

	Group		Company	
	2007	2006	2007	2006
Raw materials	11,139	13,012	11,137	12,980
Finished goods and work in process	33,985	25,925	33,985	25,925
Goods for resale	3,654	865	3,654	865
	48,778	39,802	48,776	39,770
Less: allowance	(2,489)	(725)	(2,489)	(694)
	46,289	39,077	46,287	39,076

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2007 amounted to LTL 3,319 thousand (as of 31 December 2006 Group's and the Company's LTL 725 thousand and LTL 694 thousand respectively).

In the year ended 31 December 2007 the Group and the Company wrote off unusable inventories amounting to LTL 287 thousand (LTL 36 thousand as of 31 December 2006). This amount is accounted for in the operating expenses caption in the income statement.

Part of the Company's inventories in the amount of LTL 2,350 were held at ABF Šilutės Rambynas warehouse as of 31 December 2007 thousand (LTL 1,140 thousand as of 31 December 2006).

For loans received from the banks the Company pledged inventories for LTL 32,160 thousand (Note 13) (LTL 32,000 thousand as of 31 December 2006) which are in the Company and related party's ABF Šilutės Rambynas premises.

8 Trade receivables

	Group		Company	
	2007	2006	2007	2006
Trade receivables, gross	26,882	31,607	26,880	31,607
Less: allowance for doubtful trade receivables	-	(58)	-	(58)
	26,882	31,549	26,880	31,549

Changes in allowance for doubtful trade receivables for 2007 and 2006 are included into operating expenses in the income statement. The change in allowance for trade receivables decreased operating expenses of the year 2007.

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

As of 31 December 2007 trade receivables with the nominal value of LTL nil (as of 31 December 2006 – LTL 3 thousand) were impaired and fully provided for.

Movements in the allowance for impairment of receivables were as follows:

Group and Company	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2005	-	236	236
Allowance reversed	-	(178)	(178)
Balance as of 31 December 2006	-	58	58
Allowance reversed	-	(58)	(58)
Balance as of 31 December 2007	-	-	-

The ageing analysis of trade receivables as of 31 December 2007 and 2006 is as follows:

Group	Trade receivables 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	
2006	21,129	10,393	22	2	-	3	31,549
2007	21,936	4,873	36	3	-	34	26,882

Company	Trade receivables 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	
2006	21,129	10,393	22	2	-	3	31,549
2007	21,936	4,871	36	3	-	34	26,880

9 Other receivables

Other accounts receivable of the Group and the Company balance as of 31 December 2007 mainly includes the current portion of long-term loans granted amounting to LTL 2,840 thousand (LTL 2,839 thousand as of 31 December 2006) and a receivable VAT amounting to LTL 3,404 thousand (LTL 2,122 thousand as of 31 December).

10 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
Cash at bank	11,967	12,461	11,357	12,083
Cash on hand	1,086	2,073	1,066	2,057
	13,053	14,534	12,423	14,140

11 Shareholders' equity

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 2007 the legal reserve of the Company is 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 should be restored to retained earnings and redistributed.

12 Grants received

	Group	Company
Grants received:		
Balance as of 31 December 2006	9,338	7,723
Additions	3,435	3,435
Balance as of 31 December 2007	12,773	11,158
Accumulated amortisation:		
Balance as of 31 December 2006	7,265	5,999
Charge for the year	2,509	2,193
Balance as of 31 December 2007	9,774	8,192
Net book value as of 31 December 2007	**2,999**	**2,966**
Net book value as of 31 December 2006	**2,073**	**1,724**

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 7,723 thousand 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. The net book value of the grant was LTL 308 thousand as of 31 December 2007 (LTL 1,724 thousand as of 31 December 2006).

12 Grants received (cont'd)

Additionally, in 2003 subsidiaries ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas received financing amounting to LTL 611 thousand and LTL 1,005 thousand, respectively, from the NPA for the acquisition of milk refrigeration equipment. The financing programme 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 ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas was equal to LTL nil and LTL 33 thousand, respectively, as of 31 December 2007 (LTL 122 thousand and LTL 227 thousand, respectively, as of 31 December 2006).

On 9 March 2006 the Company signed a subsidies 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 in 2007. The Company has been provided with total financing of LTL 3,435 thousand (or 44.72% of the total planed Project value). LTL 2,533 thousand (or 73.74%) of the support will be provided by the EU Structural Funds and the remaining LTL 902 thousand (or 26.26%) – by the National Budget for the implementation of the Project. The net book value of the grant was LTL 2,658 thousand as of 31 December 2007.

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 2007 and 2006. The granted financing is amortised in equal parts over the depreciation period of the assets acquired using the financing received.

13 Loans

	Group		Company	
	2007	2006	2007	2006
Non-current loans				
Bank loans secured by Group's and related parties' assets	20,631	23,173	20,631	23,173
Current loans				
Current portion of non-current loans	2,899	22,913	2,899	22,913
	23,530	46,086	23,530	46,086

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

	As of 31 December 2007	
	Fixed interest rate	Variable interest rate
2008	-	2,899
2009	5,505	6,924
2010	-	2,775
2011 and thereafter	-	5,427
	5,505	18,025

	As of 31 December 2006	
	Fixed interest rate	Variable interest rate
2007	-	22,913
2008	-	7,466
2009	7,505	2,775
2010 and thereafter	-	5,427
	7,505	38,581

13 Loans (cont'd)

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

	2007	2006
Loans denominated in:		
EUR	18,025	38,581
LTL	5,505	7,505
	23,530	46,086

As of 31 December 2007 the weighted average effective interest rate of loans outstanding was 5.3% (4.3% as of 31 December 2006). Variable interest rates are related to 6 and 3 months EUR LIBOR.

For the loans received the Company has pledged inventories for LTL 32,160 thousand (Note 7), which are in the Company's and related party's ABF Šilutės Rambynas premises. In addition, the Company pledged property, plant and equipment with the net book value of LTL 18,743 thousand (Note 4) as of 31 December 2007. The related party ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 54 thousand as of 31 December 2007 for Company's loans. The related party AB Klaipėdos Pienas pledged the property, plant and equipment with the net book value of LTL 3,430 thousand as of 31 December 2006 for the loans received by the Company.

14 Financial lease

The assets leased by the Group and the Company under financial lease contracts consist of vehicles, refrigerators, curd production line and cheese cutting line. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are up to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	Group		Company	
	2007	2006	2007	2006
Equipment	2,998	4,085	2,998	4,085
Vehicles	5,630	4,313	5,630	4,313
	8,628	8,398	8,628	8,398

Principal amounts of financial lease payables at year-end denominated in national and foreign currencies are as follows:

	Group		Company	
	2007	2006	2007	2006
EUR	7,869	6,326	7,869	6,326
LTL	-	-	-	-
	7,869	6,326	7,869	6,326

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

14 Financial lease (cont'd)

Minimal future lease payments under the above mentioned lease contracts of the Group and the Company as of 31 December 2007 and 2006 are as follows:

	2007	2006
Within one year	2,700	1,964
From one to five years	6,007	4,908
Total financial lease liabilities	8,707	6,872
Interest	(838)	(546)
Present value of financial lease liabilities	7,869	6,326
Financial lease liabilities are accounted as:		
- current	2,316	1,727
- non-current	5,553	4,599

15 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. In the year ended 31 December 2007 the lease expenses of the Group and the Company amounted to LTL 3,411 thousand (LTL 3,904 thousand in the year ended 31 December 2006) and are accounted for under operating expenses services caption.

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

	Group	Company
Within one year	3,062	2,891
From one to five years	2,293	2,135
After five years	3	-
	5,358	5,026

The currency of the payment of operating lease is Litas.

16 Payables

Terms and conditions of the above 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 26.

17 Other current liabilities

	Group		Company	
	2007	2006	2007	2006
Accrued expenses	2,210	645	2,135	601
Social security payable	1,334	960	1,334	960
Advances received	795	641	795	641
Taxes, other than income tax	316	133	22	16
Wages and salaries payable	4	2	-	1
Other current liabilities	323	1,022	232	735
	4,982	3,403	4,518	2,954

18 Operating expenses

	Group		Company	
	2007	2006	2007	2006
Wages, salaries and social security*	34,189	26,731	33,954	26,563
Services	12,991	13,855	13,124	14,016
Marketing	8,851	5,683	8,851	5,683
Fuel and spare parts	5,762	5,853	5,762	5,853
Depreciation and amortisation	4,294	4,370	4,293	4,364
Change in net realisable value and allowance for inventory	1,764	694	1,795	694
Materials	2,350	2,094	2,350	2,094
Taxes, other than income tax	948	1,099	945	1,099
Other	4,541	1,518	4,349	1,490
	75,690	61,897	75,423	61,856

* In the year ended 31 December 2007 the Group's and the Company's wages, salaries and social security expenses amounted to LTL 61,172 thousand and LTL 59,420 thousand, respectively (LTL 50,744 thousand and LTL 49,150 thousand, respectively, in the year ended 31 December 2006). LTL 34,189 thousand and LTL 33,954 thousand, respectively, of this amount are accounted for in the operating expenses (LTL 26,731 thousand and LTL 26,563 thousand, respectively, in the year ended 31 December 2006) and LTL 605 thousand and LTL 605 thousand, respectively, of this amount are accounted for in the other operating expenses (LTL 755 thousand and LTL 755 thousand, respectively, in the year ended 31 December 2006). The remaining expenses are accounted for in production cost for the year.

19 Other operating income (expenses)

	Group		Company	
	2007	2006	2007	2006
Other operating income				
Income of the canteen	831	908	831	908
Gain on sales of property, plant and equipment and raw materials	8,258	6,846	6,234	6,846
Rental income	1,831	2,394	1,831	2,394
Other	3,556	5,817	5,647	5,529
	14,476	15,965	14,543	15,677
Other operating (expenses)				
Wages, salaries and social security	(605)	(755)	(605)	(755)
Cost of raw materials sold	(5,862)	(6,362)	(5,862)	(6,362)
Other	(2,053)	(1,238)	(2,109)	(859)
	(8,520)	(8,355)	(8,576)	(7,976)

20 Income (expenses) from financial and investment activities

	Group		Company	
	2007	2006	2007	2006
Income from financial and investment activities				
Foreign currency exchange gain	473	45	472	45
Interest income	357	333	356	332
	830	378	828	377
(Expenses) from financial and investment activities				
Interest (expenses)	(2,188)	(2,302)	(2,188)	(2,285)
Foreign currency exchange (loss)	(529)	(77)	(529)	(77)
Other financial (expenses)	(8)	(6)	-	-
	(2,725)	(2,385)	(2,717)	(2,362)

21 Income tax

	Group		Company	
	2007	2006	2007	2006
Components of the income tax expense				
Current income tax for the reporting period	6,412	3,347	6,399	3,314
Changes in temporary differences	(355)	(101)	(355)	(101)
Income tax expenses recorded in the income statement	6,057	3,246	6,044	3,213

21 Income tax (cont'd)

	Group		Company	
	2007	2006	2007	2006
Deferred income tax asset				
Tax loss carry forward	7	15	-	-
Inventories	373	125	373	125
Accrued liabilities	314	131	314	131
Other	35	42	35	42
Deferred income tax asset before valuation allowance	729	313	722	298
Less: valuation allowance	(76)	(15)	(69)	-
Deferred income tax asset, net	653	298	653	298

Deferred income tax asset was accounted for using the tax rate of 15% as of 31 December 2007 (18% as of 31 December 2006), i.e. using the tax rate when deferred income tax is expected to be realised.

The changes of temporary differences before the tax effect in the Group were as follows:

	Balance as of 31 December 2006	Recognised in income statement	Balance as of 31 December 2007
Accrued taxable loss	86	(42)	44
Inventories	694	1,794	2,488
Accrued liabilities	725	1,368	2,093
Other	235	-	235
Temporary differences asset before valuation allowance	1,740	3,120	4,860

The changes of temporary differences before the tax effect in the Company were as follows:

	Balance as of 31 December 2006	Recognised in income statement	Balance as of 31 December 2007
Inventories	694	1,794	2,488
Accrued liabilities	725	1,368	2,093
Other	235	-	235
Temporary differences asset before valuation allowance	1,654	3,162	4,816

21 Income tax (cont'd)

The reported amount of income tax expenses attributable to the period can be reconciled to the theoretical amount of income tax expenses that would arise from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2007	2006	2007	2006
Profit before tax	30,567	16,146	30,292	15,797
Income tax expenses computed at 18% in 2007 and 19% in 2006	5,502	3,068	5,452	3,001
Non-deductible differences	349	166	379	195
Change of tax rate	145	17	144	17
Change in allowance for deferred tax asset	61	(5)	69	-
	6,057	3,246	6,044	3,213

22 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.

	Group	
	2007	2006
Net profit attributable to the shareholders	24,510	12,900
Weighted average number of shares (in thousand)	4,838	4,838
Basic earnings per share (LTL)	5.07	2.67

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

23 Dividends per share

	Group	
	2007	2006
Dividends paid	968	2,903
Number of shares (thousand)	4,838	4,838
Dividends per share (LTL)	0.20	0.60

24 Financial assets and liabilities and risk management

Credit risk

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 Group does not guarantee obligations of other parties, except for the guarantee disclosed in Note 25 to these financial statements. 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 8), net of impairment losses recognised 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 recognised, 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.

Interest rate risk

Part of the Group's loans is with variable rates, related to EUR LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2007 and 2006.

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.

	Increase/decrease in percentage points	Effect on profit before tax
2007		
EUR	+0.5	(90)
EUR	-0.5	90
2006		
EUR	+0.5	(193)
EUR	-0.5	193

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.

24 Financial assets and liabilities and risk management (cont'd)

Liquidity risk (cont'd)

The tables below summarise the maturity profile of the Group's and Company's financial liabilities as of 31 December 2007 and 2006 based on contractual undiscounted payments.

Group	On demand	Less than 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	549	23,349	24,169	-	48,067
Interest bearing lease liabilities	-	487	1,477	4,908	-	6,872
Trade payables	-	22,536	-	-	-	22,536
Related parties liabilities	-	6,856	-	-	-	6,856
Balance as of 31 December 2006	-	30,428	24,826	29,077	-	84,331
Interest bearing loans and borrowings	-	-	4,082	23,119	-	27,201
Interest bearing lease liabilities	-	583	2,117	6,007	-	8,707
Trade payables	-	21,703	-	-	-	21,703
Related parties liabilities	-	2,960	-	-	-	2,960
Balance as of 31 December 2007	-	25,246	6,199	29,126	-	60,571

Company	On demand	Less than 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	549	23,349	24,169	-	48,067
Interest bearing lease liabilities	-	487	1,477	4,908	-	6,872
Trade payables	-	21,763	-	-	-	21,763
Related parties and subsidiaries liabilities	-	9,126	-	-	-	9,126
Balance as of 31 December 2006	-	31,925	24,826	29,077	-	85,828
Interest bearing loans and borrowings	-	-	4,082	23,119	-	27,201
Interest bearing lease liabilities	-	583	2,117	6,007	-	8,707
Trade payables	-	20,706	-	-	-	20,706
Related parties and subsidiaries liabilities	-	5,764	-	-	-	5,764
Balance as of 31 December 2007	-	27,053	6,199	29,126	-	62,378

24 Financial assets and liabilities and risk management (cont'd)

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 being 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. Monetary assets and liabilities stated in various currencies as of 31 December 2007 were as follows:

	Group		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
Total	61,406	62,687	60,703	64,102

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

Fair value of financial instruments

The Group's principal financial instruments 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.

24 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments (cont'd)

Set out is a comparison by category of carrying amounts and fair values of all of the Group's and Company's financial instruments that are carried in the financial statements:

Group	Carrying amount		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash	13,053	14,534	13,053	14,534
Available for sale investments	14	14	14	14
Non-current accounts receivable	2,191	1,906	2,191	1,906
Financial liabilities				
Bank overdraft	-	-	-	-
Interest bearing loans and borrowings:	-	-	-	-
Obligations under financial lease and hired purchase contracts	7,869	6,326	7,869	6,326
Floating rate borrowings	18,025	38,581	18,025	38,581
Fixed rate borrowings	5,505	7,505	5,189	7,509

Company	Carrying amount		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash	12,423	14,140	12,423	14,140
Available for sale investments	14	14	14	14
Non-current accounts receivable	2,191	1,906	2,191	1,906
Financial liabilities				
Bank overdraft	-	-	-	-
Interest bearing loans and borrowings:	-	-	-	-
Obligations under financial lease and hired purchase contracts	7,869	6,326	7,869	6,326
Floating rate borrowings	18,025	38,581	18,025	38,581
Fixed rate borrowings	5,505	7,505	5,189	7,509

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing 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:

(a) The carrying amount of current trade accounts receivable, current accounts payable and short-term loans approximates fair value.
(b) 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.

24 Financial assets and liabilities and risk management (cont'd)

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 economics 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 in the objectives, policies or processes of capital management during the years end 31 December 2007 and 31 December 2006.

The Company is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on 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.

	Group		Company	
	2007	2006	2007	2006
Non-current liabilities (including deferred tax and grants)	29,183	29,969	29,150	29,620
Current liabilities	39,508	58,198	40,848	59,221
Liabilities	**68,691**	**88,167**	**69,998**	**88,841**
Equity	**96,155**	**72,613**	**95,873**	**72,593**
Debt* to equity ratio	**71%**	**121%**	**73%**	**122%**

* 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. They require that equity/assets ratio is not less than 30%. The management monitors that the Company is in line with the requirement. No other capital management tools are used. No breaches of required ratio were present during the year.

25 Commitments and contingencies

During the reorganisation that took place in 2004 the Company transferred the financial lease agreement with UAB Nordea Finance Lithuania to a newly established company AB Žemaitijos Pieno Investicija. Assets and related liabilities were transferred according to a trilateral agreement between the Company, AB Žemaitijos Pieno Investicija and UAB Nordea Finance Lithuania dated 14 November 2004. On the same day the Company signed a guarantee agreement with UAB Nordea Finance Lithuania, and guaranteed for liabilities of AB Žemaitijos Pieno Investicija, according to the transferred agreement. The liability of AB Žemaitijos Pieno Investicija according to this agreement was LTL 1,736 thousand as of 31 December 2007 (LTL 2,618 thousand as of 31 December 2006).

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

26 Related party transactions

The parties are considered related when one party has the possibility 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:

- AB Žemaitijos Pieno Investicija (same the largest shareholder);
- ABF Šilutės Rambynas (same the largest shareholder);
- UAB Baltijos Mineralinių Vandenų Kompanija (same the largest shareholder);
- AB Klaipėdos Pienas (same the largest shareholder);
- UAB Žemaitijos Prekyba (same the largest shareholder);
- UAB Gimtinės Pienas (same the largest shareholder).

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

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

	Group		Company	
i) Sales	**2007**	**2006**	**2007**	**2006**
Sales of non-current assets				
To the Group				
ŽŪK Sodžiaus Pienas	-	-	-	2
ŽŪK Tarpučių Pienas	-	-	-	1
	-	-	-	3
To Related parties				
UAB Baltijos Mineralinių Vandenų Kompanija	167	400	167	400
AB Klaipėdos Pienas	238	-	238	-
ABF Šilutės Rambynas	17	81	17	81
AB Žemaitijos Pieno Investicija	214	1,775	214	1,775
UAB Žemaitijos Prekyba	27	1,031	27	1,031
	663	3,287	663	3,287
Sales of inventory and services				
To the Group				
ŽŪK Sodžiaus Pienas	-	-	121	116
ŽŪK Tarpučių Pienas	-	-	2	57
UAB Žemaitijos Pieno Žaliava	-	-	2	2
	-	-	125	175
To Related parties				
UAB Baltijos Mineralinių Vandenų Kompanija	6,443	7,092	6,443	7,092
AB Klaipėdos Pienas	3,833	3,536	3,833	3,536
ABF Šilutės Rambynas	3,688	5,255	3,688	5,255
AB Žemaitijos Pieno Investicija	71	112	71	112
UAB Gimtinės Pienas	5	43	5	31
UAB Žemaitijos Prekyba	31,310	22,071	31,310	22,071
	45,350	38,109	45,350	38,097
Total Sales	**46,013**	**41,396**	**46,138**	**41,562**

26 Related party transactions (cont'd)

ii) Purchases	Group 2007	Group 2006	Company 2007	Company 2006
From the Group				
ŽŪK Sodžiaus Pienas	-	-	19,340	16,377
ŽŪK Tarpučių Pienas	-	-	6,914	5,844
	-	-	26,254	22,221
From Related parties				
UAB Gimtinės Pienas	-	2,058	-	2,058
ABF Šilutės Rambynas	97,835	63,609	97,807	63,588
AB Klaipėdos Pienas	7,814	3,674	7,814	3,674
UAB Baltijos Mineralinių Vandenų Kompanija	404	755	404	755
AB Žemaitijos Pieno Investicija	2,639	3,022	2,639	3,022
UAB Žemaitijos Prekyba	727	204	727	204
	109,419	73,322	109,391	73,301
	109,419	**73,322**	**135,646**	**95,522**

iii) Year-end balances of accounts receivable	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
Group				
UAB Telšių Autoservisas	-	-	20	-
	-	-	20	-
Related parties				
ABF Šilutės Rambynas	8,563	11,981	8,563	11,981
UAB Baltijos Mineralinių Vandenų Kompanija	1,816	2,216	1,816	2,216
UAB Gimtinės Pienas	90	57	63	57
UAB Žemaitijos Prekyba	2,094	1,124	2,095	1,124
	12,563	15,378	12,537	15,378
	12,563	**15,378**	**12,557**	**15,378**

26 Related party transactions (cont'd)

iv) Year-end balances of payables	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
Group				
ŽŪK Sodžiaus Pienas	-	-	1,517	2,522
ŽŪK Tarpučių Pienas	-	-	697	1,254
UAB Žemaitijos Pieno Žaliava	-	-	604	611
	-	-	2,818	4,387
Related parties				
AB Žemaitijos Pieno Investicija	1,229	3,413	1,229	3,413
AB Klaipėdos Pienas	1,717	3,385	1,717	1,326
UAB Žemaitijos Prekyba	-	10	-	-
ABF Šilutės Rambynas	14	48	-	-
	2,960	6,856	2,946	4,739
	2,960	**6,856**	**5,764**	**8,126**

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables, except as discussed in Note 25. For the year ended 31 December 2007 and 2006, 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 (AB Žemaitijos pieno investicija 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 ABF Šilutės Rambynas, buy up of ice - cream from AB Klaipėdos pienas, distribution services' sales to UAB Baltijos mineralinių vandenų kompanija and product sales to UAB Žemaitijos prekyba.

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 2,955 thousand in the year ended 31 December 2007 (LTL 2,046 thousand in the year ended 31 December 2006). In 2006 the Company has granted short term loans to the management in total amount of LTL 1,282 thousand, which were repaid to the Company till 31 December 2006. In the year ended 31 December 2007 and 2006, the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued.

27 Subsequent events

Change in the par value of the shares

During the extraordinary shareholder's meeting on 8 February 2008, there was made a decision 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.

Liquidation on UAB Žemaitijos Pieno Žaliava

During the meeting of the Board on 19 February 2008, it was decided to start liquidation procedure of UAB Žemaitijos Pieno Žaliava.

27 Subsequent events (cont'd)

Competition Council decision

In 2007 the Lithuanian Competition Council has ruled that nine local milk purchasing and processing companies, including the Group, had entered into a cartel agreement to increase dairy products prices in the Lithuanian market. Potentially fine imposed by the Competition Council could have been up to 10% of turnover. Based on the subsequently made decision by the Competition Council no fine is to be imposed to the Group.

Žemaitijos pienas AB
Approval of responsible persons

28 February 2008
Telšiai

Regarding drafting of financial statement for the year ended 31 December 2007

We hereby confirm that the Interim Financial Statements prepared according to applicable standards of accounting does reflect the real situation and represent the true and correct corporate assets, liabilities, financial standing, profit or loss.

We also confirm that the Interim Report does represent the true and correct review of business development and activities.

General Manager — Algirdas Pažemeckas

Chief Accountant — Dalia Gecienė

ANNEX
to the Consolidated Annual Report

Report on Compliance with the Corporate Governance Code for the Vilnius Stock Exchange Listed Companies by ŽEMAITIJOS PIENAS AB

In this report *Žemaitijos Pienas AB* („the Company“) presents information, in accordance with Article 21(3) of the Republic of Lithuania Law on Securities and Sub-Clause 20.5 of the Trading Rules of the Vilnius Stock Exchange, on compliance with the Corporate Governance Code for the companies whose securities are traded in a regulated market approved by the Vilnius Stock Exchange.

PRINCIPLES/ RECOMMENDATIONS	YES /NO /NOT APPLICABLE	COMMENT
Principle I: **Basic Provisions** **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company publishes its development strategy and objectives in the annual and interim (quarterly) reports of the Company.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company works according to the corporate strategic plan aimed at ensuring profitable operations through the establishment and development of modern production facilities and at augmenting shareholders' equity.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	There is close cooperation among the Supervisory Council, the Board and the Chief Executive Office of the Board aimed at maximising benefits to the Company and the shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	Supervisory and managerial bodies of the Company are responsible for ensuring that the rights and responsibilities of the Company's shareholders, employees and suppliers are respected. The employees have the opportunity to improve their skills at training courses and workshops in Lithuania and abroad. The Company offers various discounts to milk producers. A large part of employees as well as milk producers are shareholders of the Company.
Principle II: The Corporate Governance Framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, and protection of the shareholders' interests**		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The management bodies of the Company include the general meeting of shareholders, the Supervisory Council, the Board and the Chief Executive Officer.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions specified in the recommendation are performed by the Company's collegial supervisory and managerial bodies, i. e. the Supervisory Council and the Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	N/a	Both the Supervisory Council and the Board are formed in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	Two collegial bodies have been formed: the Supervisory Council and the Board. The provisions described under Principles III and IV apply to them.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Supervisory Council of the Company has 3 (three) members, while the Board has 5 (five) members. In the opinion of the Company, the number of the Board's members is sufficient.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to the Articles of Association of the Company, the Board and the Council are formed for the term of office of 4 (four) years. The number of the terms of office is unlimited. The dismissal/resignation from the Board and the Supervisory Council is governed by the Lithuanian law.

2.7. A chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to deviate from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Supervisory Council has been formed in the Company. The Chief Executive Officer of the Company is the Chairman of the Board.
Principle III: The order of the formation of a collegial body to be elected by the general meeting of shareholders **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter under this Principle referred to as the "collegial body") should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders' interests.	Yes	The Supervisory Council of the Company as a collegial management body is elected by the general meeting of shareholders. The Company discloses information about the candidates to the collegial management body. The right of minority shareholders to represent their interests and to have a representative in the collegial management bodies is not restricted.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The annual report contains information on the members of the collegial management bodies (first name, surname, educational attainment, qualifications, professional experience, participation in other companies, other important professional responsibilities).
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Information about the candidates to the Supervisory Council is included in the information package handed out to participants in the meeting at which the elections to the Supervisory Council is to be held.

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	No	No audit committee has been formed in the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	New members of the Board are informed about their responsibilities and the organisation and operation of the Company at the Board's meetings.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient4 number of independent5 members.	No	At present, members of the Company's Supervisory Council do not meet the set criteria of independence as employees of the Company are members of the Supervisory Council. The Company has not yet decided on the implementation of these provisions in the future.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or	No	At present, members of the Company's Supervisory Council do not meet the set criteria of independence as employees of the Company are members of the Supervisory Council. The Company has not yet decided on the implementation of these provisions in the future.

some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance. He/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The Company has not set any additional criteria for the independence of members of the collegial bodies.

3.9. The necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The members of the Company's Supervisory Council do not meet the independence criteria set in the Code.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The Company has had no opportunities to implement the principle of independence of the Supervisory Council's members.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	The members of the Company's Supervisory Council and Board have occasionally received tantiemes (payments from gross profit).
Principle IV: The duties and liabilities of a collegial body elected by the general meeting of shareholders **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the "collegial body") should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves the Company's annual financial statements, the draft profit appropriation and the annual report and presents its comments and proposals to the general meeting of shareholders. The Board considers the results of the Company's operations during the year and performs other functions falling within the scope of its competence.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, to another authority.	Yes	In performing their duties, members of the Supervisory Council and the Board act in accordance with the best interests of the Company; there have been no grounds for believing otherwise.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the collegiate bodies duly perform their functions: they take an active part in the meetings of the collegiate bodies and devote sufficient time to perform their duties as members of the collegiate bodies. Quorum was present at all the meetings of the collegiate bodies, which enabled the adoption of constructive decisions.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	There have been no conflicts between the shareholders and the collegiate bodies. The shareholders are informed about the matters of the Company in accordance with the procedure prescribed by the laws (the Law on Companies) and the Articles of Association of the Company.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The Company's management bodies conclude transactions in accordance with the provisions of the Articles of Association.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	Members of the Supervisory Council and the Board are employees of the Company, so they are not independent of the management bodies. In the adoption of decisions the Supervisory Council and the Board represent the interests of the shareholders.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore, when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	Due to small number of the Board's members the Company has not established committees for the directors' appointment and remuneration and an audit committee. The functions described in this recommendation are performed by the Board within the scope of its competence.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	No committees have been formed by the Company.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.	No	The committees have not been formed and the matter has not been considered previously.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	No committees have been formed by the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	No committees have been formed by the Company.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on a regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on a regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Duly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	No nomination committee have been formed by the Company (as explained under Item 4.7).
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the	No	No remuneration committee have been formed by the Company (as explained under Item 4.7).

affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		

4.14. Audit Committee 4.14.1. Key functions of the audit committee should be the following: 1) Monitor the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the	No	No audit committee have been formed by the Company (as explained under Item 4.7).

accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7.The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company has no practice of assessment of the Supervisory Council's and the Board's activities in place.
Principle V: The working procedure of the Company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept "collegial bodies" covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	Meetings of the Supervisory Council are chaired by its chairwoman. Meetings of the Board are chaired by its chairman.
5.2. It is recommended that meetings of the company's collegial bodies should be convened according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	Meetings of the Board are convened according to a preset schedule (on a monthly basis), in addition, extraordinary meetings are held. Meetings of the Supervisory Council are convened once in a half-year.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The agenda of the meeting and related materials are sent to all members of the collegial bodies by email prior to the meetings. Making additions to the agenda during the meeting is only allowed provided that all the members are present at the meeting, the issue is significant, and all the members agree that the issue must be considered on an urgent basis.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	Meetings of the Supervisory Councils are open to the Board's members.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorised capital of the Company consists of ordinary registered shares that grant the same property and non-property rights to their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company furnishes investors with information about the rights attached to the newly or previously issued shares.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	The consent of the general meeting of shareholders of the Company is obtained for significant transactions according to the criteria which are set in the Republic of Lithuania Law on Companies and the Company's Articles of Association and of which the shareholders are notified in advance.

6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	The general meetings of shareholders of the Company are convened in accordance with the Republic of Lithuania Law on Companies and the Company's Articles of Association. All the shareholders are notified of the place, date and time of the general meeting of shareholders. All the shareholders are provided with the opportunity to get conversant with the materials of the meeting 10 days prior to the date thereof as required by the Law on Companies and the Company's Articles of Association.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	In accordance with the Republic of Lithuania Law on Companies, the documents prepared for the general meeting of shareholders are published in the Vilnius Stock Exchange's website not later than 10 days prior to the date of the meeting, which enables the shareholders to get conversant with the information.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company may take part in the general meeting of shareholders both in person and by proxy provided that the proxy has produced a proper power of attorney or an agreement on the assignment of voting rights has been concluded with the proxy. The Company also permits the shareholders to vote by filling in a ballot according to the provisions of the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Implementation of the specified measures would require costs that would be non-proportional to the expected benefits.

Principle VII: The avoidance and disclosure of conflicts of interest **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company follows these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to Recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The Company follows this recommendation. A member of the Company must abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.
Principle VIII: Company's remuneration policy **The remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not publish remuneration amounts as this is not required by the legal acts.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The Company does not publish remuneration amounts as this is not required by the legal acts.
8.3. The remuneration statement should include at least the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors but the remuneration statement should not include any commercial information that should not be revealed.	No	For the above stated reason the Company has not approved a remuneration policy under which a remuneration statement would be prepared.
8.4. The remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	General information on payments and loans to members of the Supervisory Council and the Board of the Company is published in the annual prospect-report.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company provides the information required by the Republic of Lithuania Law on Companies.

8.7. The remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emolument-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial	No	The annual prospect – report specifies the amounts of remuneration and tantiemes per member of the Board/Supervisory Council. The annual prospectus of the Company is published on the website of the Vilnius Stock Exchange.

statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. The schemes under which the directors are remunerated in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	N/a	The Company does not apply any schemes of remuneration to directors in the form of shares, share options or other rights to acquire shares or to receive remuneration based on share price fluctuations.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Granting of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. The annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company's governance framework ensures that the statutory rights of stakeholders are not infringed. Employees of the Company and milk producers account for the largest part of shareholders of the Company.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Corporate objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	Information on the Company required by these recommendations is disclosed in the annual and interim reports, statements of material events, and financial statements of the Company. This information is published through the information disclosure system of the Vilnius Stock Exchange. Upon reporting on material events, more detailed information is additionally published in the mass media.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Information is presented through the information disclosure system of the Vilnius Stock Exchange in Lithuanian and English simultaneously where possible. The Stock Exchange publishes the information received on its website and the trading system; in this way simultaneous disclosure is ensured. Furthermore, the Company seeks to publish the information either before or after the trading session at the Stock Exchange, presenting it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that might influence the price of securities issued by the Company in any comments or interviews or in any other manner before such information is published through the Stock Exchange's information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company publishes its annual and interim reports on its website.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company publishes its annual and interim reports and statements of material events on the Company's website.
Principle XI: The selection of the Company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An examination of the Company's annual financial statements and the annual report is carried out by an independent audit firm.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The general meeting of shareholders gives an instruction to the Board to select an audit firm.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	N/a	The audit firm has not received from the Company any payments other than the fee for audit services.

Algirdas Pažemeckas General Manager