

AKCINĖ  
BENDROVĖ

STOCK  
COMPANY



Sedos g. 35, 87101, Telšiai  
LIETUVOS RESPUBLIKA  
Tel.: (+370-444) 22 201, 22 202, 22 203, 22 205  
Faksas (+370-444) 74 897  
El.paštas info@zpienas.lt  
a/s LT764010042800060281  
AB „DnB NORD“ bankas, banko kodas 40100  
įmonės kodas 180240752

## Approval of responsible persons

20 October 2009

Telšiai

Regarding drafting of financial statement for the nine months ended 30 september 2009 Following the Article No.22 of Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional approved by Securities Commission of the Republic of Lithuania we, Algirdas Pažemeckas, General Director And Dalia Geciene, Chief Accountant, hereby confirm that, to the our knowledge, the attached JSC “Žemaitijos Pienas” Consolidated Interim Financial Statements for the nine monts of 2009 prepared in accordance with International Financial Reporting Standards are true and fairly present assets, liabilities, financial position, profit or loss of JSC “Žemaitijos Pienas” group consolidated companies.

General Director

Algirdas Pažemeckas

Chief Accountant

Dalia Geciene

AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai  
CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009  
(all amounts are in LTL thousand unless otherwise stated )

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**AB „ŽEMAITIJOS PIENAS“**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED**  
**30 SEPTEMBER 2009**

## Balance sheets

	Group	
	As of 30 September 2009	As of 31 December 2008
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	123	201
Property, plant and equipment	78.584	88.481
Investment property		-
Available – for – sale investments	4	-
Investments into subsidiaries	-	-
Non-current receivables	1.701	1.124
Deferred income tax asset	1.056	1.152
<b>Total non-current assets</b>	<b>81.468</b>	<b>90.958</b>
<b>Current assets</b>		
Inventories	39.341	62.989
Prepayments	570	580
Trade receivables	24.569	26.697
Receivables from subsidiaries	-	-
Receivables from other related parties	5.400	3.045
Other receivables	4.367	8.367
Cash and cash equivalents	29.233	9.049
<b>Total current assets</b>	<b>103.480</b>	<b>110.727</b>
<b>Total assets</b>	<b>184.948</b>	<b>201.685</b>

**Balance sheets (cont'd)**

	Group	
	As of 30 September 2009	As of 31 December 2008
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	48.375	48.375
Legal reserve	4.838	4.838
Retained earnings	45.158	39.269
	<u>98.371</u>	<u>92.482</u>
<b>Minority interest</b>	<b>2.547</b>	<b>2.552</b>
<b>Total shareholders' equity</b>	<b>100.918</b>	<b>95.034</b>
<b>Non-current liabilities</b>		
Grants received	3.441	4.157
Long-term loans from related parties	25.632	25.632
Financial lease obligations	16.389	13.370
Other current liabilities	640	640
<b>Total non-current liabilities</b>	<b>46.102</b>	<b>43.799</b>
<b>Current liabilities</b>		
Current portion of non-current loans	8.075	18.545
Current portion of non-current financial lease obligations	1.313	4.642
Trade payables	17.652	24.333
Payables to subsidiaries	-	-
Payables to other related parties	562	5.118
Income tax payable	30	2
Other current liabilities	10.296	10.212
<b>Total current liabilities</b>	<b>37.928</b>	<b>62.852</b>
<b>Total liabilities and shareholders' equity</b>	<b>184.948</b>	<b>201.685</b>

General Director

Algirdas Pažemeckas

20 October 2009

Chief Accountant

Dalia Geciene

20 October 2009

## Income statements

	Group		Group	
	As of 30	As of 30	01 July 2009 -	01 July 2008 -
	September 2009	September 2008	30 September 2009	30 September 2008
Sales	277.073	361.492	90.288	126.586
Cost of sales	(228.256)	(311.135)	(71.528)	(104.796)
<b>Gross profit</b>	<b>48.817</b>	<b>50.357</b>	<b>18.760</b>	<b>21.790</b>
Operating expenses	(42.286)	(62.537)	(11.087)	(20.641)
Other operating income, net	773	5.338	286	1.851
<b>Profit from operations</b>	<b>7304</b>	<b>(6.842)</b>	<b>7.959</b>	<b>3.000</b>
Financial and investment activities	(1.263)	(1.494)	(148)	(1.117)
<b>Profit before income tax</b>	<b>6.041</b>	<b>(8.336)</b>	<b>7811</b>	<b>1.883</b>
Income tax	(125)	-	(11)	-
<b>Net profit</b>	<b>5.916</b>	<b>(8.336)</b>	<b>7.800</b>	<b>1.883</b>

General Director

Algirdas Pažemeckas

20 October 2009

Chief Accountant

Dalia Gecienė

20 October 2009

### Statements of changes in equity

Group	Attributable to shareholders of the Company					
	Share capital	Legal reserve	Retained earnings	Total	Minority interest	Total
Balance as of 31 December 2007	48.375	4.838	42.942	96.155	1.037	97.192
Dividends declared	-	-	-	-	-	-
Net profit for nine months	-	-	(8.336)	(8.336)	1.608	(6.728)
Balance as of 30 September 2008	48.375	4.838	34.606	87.819	2.645	90.464
Balance as of 31 December 2008	48.375	4.838	39.269	92.482	2.552	95.034
<i>2008 correct by retrospective method</i>			(27)	(27)	(5)	(32)
Net profit for the nine months	-	-	5.916	5.916	-	5.916
Balance as of 30 September 2009	48.375	4.838	45.158	98.371	2.547	100.918

General Director

Algirdas Pažemeckas

20 October 2009

Chief Accountant

Dalia Gecienė

20 October 2009



## **Cash flow statements**

	Group	
	As of 30 September 2009	As of 30 September 2008
<b>Cash flows from (to) operating activities</b>		
Net profit	5.916	(8.336)
<b>Adjustments for non-cash items:</b>		
Depreciation and amortization	13.936	11.936
Amortization of grants received	(716)	(841)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(149)	-
Result from financial and investment activities	1.096	1.778
Decrease ( increase ) values of inventories	5.342	-
Allowance for receivables	-	-
Income tax expenses	-	-
Other non-cash (income) expenses	(32)	-
	<u>25.393</u>	<u>4.537</u>
<b>Changes in working capital:</b>		
Decrease in inventories	18.306	(14.256)
(Increase of) Receivables	(227)	7.385
Decrease in prepayments and other current assets	2.616	796
Increase in trade payables, payables to related parties and payables to subsidiaries	(11.237)	(5.084)
Income tax (paid)		
Increase (decrease) in other current liabilities	185	9.822
<b>Net cash flows from operating activities</b>	<u>35.036</u>	<u>3.200</u>
<b>Cash flows from (to) investing activities</b>		
(Acquisition) of property, plant and equipment and intangible assets	(9.516)	(40.481)
Disposal of property, plant and equipment	5.704	306
Proceeds from sales of investments	(4)	
Repayment of loans granted	1.817	3.116
Loans (granted)	(904)	(2.042)
Interest received	460	188
<b>Net cash flows (to) investing activities</b>	<u>(2.443)</u>	<u>(38.913)</u>

(Cont'd on the next page)

**Cash flow statements (cont'd)**

	Group	
	As of 30 September 2009	As of 30 September 2008
<b>Cash flows from (to) financing activities</b>		
Dividends (paid)	(21)	(20)
Cash, (transferred) during reorganization		
Loans received	0	22.457
(Repayment) of loans	(10.470)	(1.357)
Financial lease (payments)	(362)	9.552
Sponsorship Received	0	1.407
Other revenue from financial activities	76	(305)
Interest (paid)	(1.632)	(1.952)
<b>Net cash flows (to) financial activities</b>	<b>(12.409)</b>	<b>29.782</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>20.184</b>	<b>(5.931)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>9.049</b>	<b>13.053</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>29.233</b>	<b>7.122</b>

General Director

Algirdas Pažemeckas

20 October 2009

Chief Accountant

Dalia Gecienė

20 October 2009





## Notes to the financial statements

### 1. General information

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's shares are traded on the Current List of the Vilnius Stock Exchange.

As of 30 September 2009 and 2008 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 1 each. 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 2008 and 30 September 2009, the Company also had no its own shares.

As of 30 September 2009 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Total equity holding 2008 12 31	Total equity holding 2009 09 30	Main activities
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	342	340	Milk collection services
ŽŪK Sodžiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	1.287	1.401	Milk collection services
ABF „Šilutės Rambynas“	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	10.878	13.499	14.377	Cheese production

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages 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. ABF „Šilutės Rambynas“ is considered a subsidiary because AB Žemaitijos Pienas controls its activities and controls more than 50% of its shares.

As of 30 September 2009, the number of employees of the Group was 1576 ( as of 30 September 2008 – 2022 ).

#### Main indicators of the Company' s" performance :

Sales, thousand LTL	277.073
Gross profit, thousand LTL	48.817
EBITDA, thousand LTL	21.609
Current ratio ( at the end of period)	2,728
Book value per share ( at the end of period )	2,086

## 2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the nine months ended 30 September 2009 are as follows:

### Basis of preparation

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

### Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3,4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### 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.

Intercompany balances and transactions, including unrealized 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.

### Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The 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 amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. Amortisation expenses of intangible assets are included into operating expenses.

### Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, 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.

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 methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognized 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 derecognized.

#### **Investment property**

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

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

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

#### **Inventories**

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. 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. Unrealizable inventory is fully written-off.

#### **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 know 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.

#### **Financial assets and financial liabilities**

The Group and the Company recognize 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.

#### **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 recognized on the trade date. When financial assets are recognized 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.

#### **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 amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### **Loans received**

Loan costs are expensed as incurred.

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

#### **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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### **Grants**

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 income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

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

#### **Income tax**

Income tax is calculated based on the Lithuanian tax legislation

On the year 2009 the income tax applied to the companies in the Republic of Lithuania is 20%.

#### **Revenue recognition**

Revenue is recognized 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 recognized net of VAT and discounts.

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

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

#### **Expense recognition**

Expenses are recognized 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 usually 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.

#### **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 transaction of monetary assets and liabilities

denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

### Guarantees

Financial guarantees provided by the Group are initially recognized 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 amortized 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 recognized 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

### 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 Company are organized as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group	
	As of 30 September 2009	As of 30 September 2008
<b><u>Sales</u></b>		
Lithuania	158.354	194.875
Other Baltic States and CIS countries	56.782	86.974
Other European countries	56.977	75.890
USA	-	-
Other	4.960	3.753
	<b>277.073</b>	<b>361.492</b>

## 4. Inventories

	Group	
	As of 30 September 2009	As of 30 September 2008
Raw materials	10.110	12.403
Finished goods and work in process	28.651	44.078
Goods for resale	580	4.065
	<b>39.341</b>	<b>60.546</b>

**5. Loans' repayment terms:**

	<b>30 September 2009</b>
2009 m.	8.075
2010 m.	1.158
2011 m.	1.670
2012 m.	22.387
2013 m.	417
2014m.	-
<b>Total Loans on 30 September 2009</b>	<b>33.707</b>

30 September 2009, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	<u>30 September 2009</u>
<b>Loan currency:</b>	
Euro	25.707
Litas	8.000
	<u>33.707</u>

**6. Subsequent events**

Subsequent events was not after was make consolidated financial statements.