

AKCINĖ
BENDROVĖ

STOCK
COMPANY



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Žemaitijos pienas AB

Approval of responsible persons

20 May 2011

Telšiai

Regarding drafting of financial statement for the three months ended 31 March 2011 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 three months ended 31 March 2011 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”

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
31 MARCH 2011**

Balance sheets

	Group	
	As of 31 March 2011	As of 31 December 2010
ASSETS		
Non-current assets		
Intangible assets	23	23
Property, plant and equipment	63.876	65.357
Investment property		-
Available – for – sale investments	4	4
Investments into subsidiaries	-	-
Non-current receivables	4.318	3.760
Own shares	1	-
Deferred income tax asset	1.605	1.605
Total non-current assets	69.827	70.749
Current assets		
Inventories	59.762	62.081
Prepayments	437	641
Trade receivables	27.285	36.265
Receivables from subsidiaries	-	-
Receivables from other related parties	10.345	-
Other receivables	4.137	6.542
Deposits	-	5.000
Cash and cash equivalents	15.714	8.766
Total current assets	117.680	119.294
Total assets	187.507	190.043

Balance sheets (cont'd)

	Group	
	As of 31 March 2011	As of 31 December 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity attributable to equity holders of the parent		
Share capital	48.375	48.375
Legal reserve	4.838	4.838
Other reserves	10.000	10.000
Retained earnings	57.977	56.842
	121.190	120.055
Minority interest	1.840	1.840
Total shareholders' equity	123.030	121.895
Non-current liabilities		
Grants received	2.393	2.678
Long-term loans from related parties	8.838	8.838
Financial lease obligations	6.575	6.575
Deferred income tax liability	784	784
Other current liabilities	1.879	1.879
Total non-current liabilities	20.469	20.754
Current liabilities		
Current portion of non-current loans	1.253	1.670
Current portion of non-current financial lease obligations	3.506	4.673
Trade payables	24.946	25.652
Payables to subsidiaries	-	-
Payables to other related parties	242	-
Income tax payable	564	2.822
Other current liabilities	13.498	12.578
Total current liabilities	44.009	47.394
Total liabilities and shareholders' equity	187.507	190.043

Income statements

	Group	
	01 January 2011 - 31 March 2011	01 January 2010 - 31 March 2010
Sales	116.189	91.989
Cost of sales	(96.354)	(77.309)
Gross profit	19.835	14.680
Operating expenses	(18.214)	(13.987)
Other operating income, net	107	(733)
Profit from operations	1.728	(40)
Financial and investment activities, net	34	168
Profit before income tax	1.762	128
Income tax	(627)	-
Net profit	1.135	128

Statements of changes in equity

<u>Group</u>	<u>Attributable to shareholders of the Company</u>						
	<u>Share capital</u>	<u>Legal reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>	<u>Minority interest</u>	<u>Total</u>
Balance as of 31 December 2009	48.375	4.838	-	50.465	103.678	2.626	106.304
Daughter enterprise liquidation				(523)	(523)	(721)	(1.244)
Net profit for the three months	-	-		128	128	-	128
Balance as of 31 March 2010	48.375	4.838	-	50.070	103.283	1.905	105.188
Balance as of 31 December 2010	48.375	4.838	10.000	56.842	120.055	1.840	121.895
Net profit for the three months	-	-	-	1.135	1.135	-	1.135
Balance as of 31 March 2011	48.375	4.838	10.000	57.977	121.190	1.840	123.030

Cash flow statements

	Group	
	As of 31 March 2011	As of 31 March 2010
Cash flows from (to) operating activities		
Net profit	1.135	128
Adjustments for non-cash items:		
Depreciation and amortization	4.656	4.727
Amortization of grants received	(285)	(350)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(7)	(63)
Result from financial and investment activities	(52)	(30)
Decrease (increase) values of inventories	-	1.913
Decrease (increase) values of receivables	-	-
Income tax expenses	-	-
Other non-cash (income) expenses	-	-
	5.447	6.325
Changes in working capital:		
Decrease (increase) in inventories	2.319	9.213
(Increase) in trade receivables	(1.364)	(1.143)
Decrease in prepayments and other current assets	203	(327)
Decrease in other receivables	3.061	56
Increase in other long-term payables	-	-
Increase (decrease) terminable deposits	5.000	4.062
Increase(decrease) in trade payables, payables to related parties	417	757
Income tax (paid)	-	-
Increase (decrease) in other current liabilities	(2.219)	(222)
Net cash flows from operating activities	12.864	18.721
Cash flows from (to) investing activities		
(Acquisition) of property, plant and equipment and intangible assets	(3.179)	(806)
Disposal of property, plant and equipment	11	71
Daughter enterprise liquidation	-	(1.244)
Repayment of loans granted	662	383
Loans (granted)	(1.877)	(420)
Interest received	172	198
Net cash flows (to) investing activities	(4.211)	(1.818)

(Cont'd on the next page)

Cash flow statements (cont'd)

	Group	
	As of 31 March 2011	As of 31 March 2010
Cash flows from (to) financing activities		
Dividends (paid)	-	-
Cash, (transferred) during reorganization		
Loans received	-	-
(Repayment) of loans	(418)	(5.525)
Financial lease (payments)	(1.167)	(1.355)
Sponsorship received	-	683
Other revenue from financial activities	-	-
Interest (paid)	(120)	(168)
Net cash flows (to) financial activities	(1.705)	(6.365)
Net increase (decrease) in cash and cash equivalents	6.948	10.538
Cash and cash equivalents at the beginning of the year	8.766	24.629
Cash and cash equivalents at the end of the year	15.714	35.167

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 31 March 2011 and as of 31 December 2010 the share capital of the Company was LTL 48.375 thousand, which consisted of 48.375 thousand 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 March 2011 and as of 31 December 2010, the Company also had no its own shares.

The Company acquired own shares 10 ones for 1.027 LTL for the three months ended 31 March 2011.

As of 31 March 2011 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 2010 12 31	Total equity holding 2011 03 31	Main activities
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	12,08%	100%	60	482	425	Milk collection services
ABF „Šilutės Rambynas“	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	10.878	12.538	12.117	Cheese production
SIA „Muižas piens“	Skaistkalnes g. 1, Rīga, Latvija	32%	-	4			Retail, wholesale trade

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 is 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 31 March 2011, the number of employees of the Group was 1.505 (according of 31 March 2010 – 1.508).

Main indicators of the Company' s" performance :

Sales, thousand LTL	116.189
Gross profit, thousand LTL	19.835
EBITDA, thousand LTL	6.538
Current ratio (at the end of period)	2,67
Book value per share (at the end of period)	2,54

2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the nine months ended 31 March 2011 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. Amortization 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 years 2011 and 2010, the income tax applied to the companies in the Republic of Lithuania is 15%.

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:

AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai
CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2011
(all amounts are in LTL thousand unless otherwise stated)

	Group	
	As of 31 March 2011	As of 31 March 2010
Sales		
Lithuania	66.661	54.931
Other Baltic States and CIS countries	30.353	23.208
Other European countries	16.945	11.858
USA	39	45
Other	2.191	1.947
	116.189	91.989

4. Inventories

	Group	
	As of 31 March 2011	As of 31 March 2010
Raw materials	12.163	9.312
Finished goods and work in process	49.274	18.483
Goods for resale	1.028	863
Decrease values of raw materials and goods	(2.703)	(1.913)
	59.762	26.745

5. Loans' repayment terms:

	31 March 2011
2011 m .	1.253
2012 m .	8.420
2013 m .	418
2014 m .	-
Total Loans on 31 Decemberber 2011	10.091

31 March 2011, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	31 March 2011
Loan currency:	
Euro	10.091
Litas	-
	10.091

6. Subsequent events

Subsequent events was not after was make consolidated financial statements.