

AKCINĖ  
BENDROVĖ

STOCK  
COMPANY



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## Žemaitijos pienas AB

Approval of responsible persons

29 November 2011

Telšiai

Regarding drafting of financial statement for the nine months ended 30 september 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 Lithuanian we, Robertas Pažemeckas, Assistant 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 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.

Assistant General Director

Robertas 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 2011  
(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 2011**

## Balance sheets

	Group	
	As of 30 September 2011	As of 31 December 2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	439	23
Property, plant and equipment	68,818	65,357
Investment property	-	-
Available – for – sale investments	14	4
Investments into subsidiaries	-	-
Non-current receivables	6,586	3,760
Own shares	2	-
Deferred income tax asset	1,605	1,605
<b>Total non-current assets</b>	<b>77,464</b>	<b>70,749</b>
<b>Current assets</b>		
Inventories	79,651	62,081
Prepayments	645	641
Trade receivables	33,436	36,265
Receivables from subsidiaries	-	-
Receivables from other related parties	8,308	-
Other receivables	3,457	6,542
Deposits	-	5,000
Cash and cash equivalents	8,603	8,766
<b>Total current assets</b>	<b>134,100</b>	<b>119,294</b>
<b>Total assets</b>	<b>211,564</b>	<b>190,043</b>

## Balance sheets (cont'd)

	Group	
	As of 30 September 2011	As of 31 December 2010
<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
Reserve for one's shares formation	15,000	10,000
Retained earnings	50,555	56,842
	118,768	120,055
<b>Minority interest</b>	<b>1,840</b>	<b>1,840</b>
<b>Total shareholders' equity</b>	<b>120,608</b>	<b>121,895</b>
<b>Non-current liabilities</b>		
Grants received	1,839	2,678
Long-term loans from related parties	29,019	8,838
Financial lease obligations	7,282	6,575
Liabilities arising from deferred profit tax	784	784
Other current liabilities	1,879	1,879
<b>Total non-current liabilities</b>	<b>40,803</b>	<b>20,754</b>
<b>Current liabilities</b>		
Current portion of non-current loans	418	1,670
Current portion of non-current financial lease obligations	1,209	4,673
Trade payables	31,419	25,652
Payables to subsidiaries	-	-
Payables to other related parties	527	-
Income tax payable	330	2,822
Other current liabilities	16,251	12,578
<b>Total current liabilities</b>	<b>50,153</b>	<b>47,394</b>
<b>Total liabilities and shareholders' equity</b>	<b>211,564</b>	<b>190,043</b>

## Income statements

	Group		Group	
	As of 30 September 2011	As of 30 September 2010	01 July - 30 September 2011	01 July - 30 September 2010
Sales	372,512	315,229	124,956	119,515
Cost of sales	(301,854)	(248,326)	(101,570)	(89,459)
<b>Gross profit</b>	<b>70,658</b>	<b>66,903</b>	<b>23,386</b>	<b>30,056</b>
Operating expenses	(64,560)	(55,697)	(21,044)	(22,161)
Other operating income, net	395	(928)	97	(34)
<b>Profit from operations</b>	<b>6,493</b>	<b>10,278</b>	<b>2,439</b>	<b>7,861</b>
Financial and investment activities	(71)	294	(92)	76
<b>Profit before income tax</b>	<b>6,422</b>	<b>10,572</b>	<b>2,347</b>	<b>7,937</b>
Income tax	(2,209)	(1,051)	(627)	(1,051)
<b>Net profit</b>	<b>4,213</b>	<b>9,521</b>	<b>1,720</b>	<b>6,886</b>

## Statements of changes in equity

Group	Attributable to shareholders of the Company						
	Share capital	Legal reserve	Reserve for one's shares formation	Retained earnings	Total	Minority interest	Total
<b>Balance as of 31 December 2009</b>	<b>48,375</b>	<b>4,838</b>	-	<b>50,465</b>	<b>103,678</b>	<b>2,626</b>	<b>106,304</b>
2009 correct by retrospective method				(2)	(2)	-	(2)
Dividends, tantiems paid	-	-		(2,600)	(2,600)	-	(2,600)
Liquidation of subsidiaries				(523)	(523)	(731)	(1,254)
Reserve for one's shares formation			10,000	(10,000)	-	-	-
Net profit for nine months	-	-	-	9,521	9,521	-	9,521
<b>Balance as of 30 September 2010</b>	<b>48,375</b>	<b>4,838</b>	<b>10,000</b>	<b>46,861</b>	<b>110,074</b>	<b>1,895</b>	<b>111,969</b>
<b>Balance as of 31 December 2010</b>	<b>48,375</b>	<b>4,838</b>	<b>10,000</b>	<b>56,842</b>	<b>120,055</b>	<b>1,840</b>	<b>121,895</b>
Dividends, tantiems paid				(5,500)	(5,500)	-	(5,500)
Reserve for one's shares formation			5,000	(5,000)	-	-	-
Net profit for the nine months	-	-	-	4,213	4,213	-	4,213
<b>Balance as of 30 September 2011</b>	<b>48,375</b>	<b>4,838</b>	<b>15,000</b>	<b>50,555</b>	<b>118,768</b>	<b>1,840</b>	<b>120,608</b>

## Cash flow statements

	<b>Group</b>	
	<b>As of 30 September 2011</b>	<b>As of 30 September 2010</b>
<b>Cash flows from (to) operating activities</b>		
Net profit	4,213	9,521
<b>Adjustments for non-cash items:</b>		
Depreciation and amortization	13,242	14,132
Amortization of grants received	(839)	(920)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(311)	(94)
Result from financial and investment activities	37	(185)
Decrease ( increase ) values of inventories	9,245	477
Impairment of receivables	761	8,640
Expenses arising from the liquidation of subsidiaries	-	(1,244)
Income tax expenses	-	-
Other non-cash (income) expenses	(1)	(2)
	26,347	30,325
<b>Changes in working capital:</b>		
Decrease in inventories	(26,815)	(10,652)
(Increase of) Receivables	(6,240)	(4,404)
Decrease in prepayments and other current assets	(6)	(224)
Decrease in other receivables	1,994	(3,886)
Increase in trade payables, payables to related parties and payables to subsidiaries	7,175	10,549
Income tax (paid)	-	-
Deposits	5,000	(3,839)
Increase (decrease) in other current liabilities	(2,452)	3,724
<b>Net cash flows from operating activities</b>	<b>5,003</b>	<b>21,593</b>
<b>Cash flows from (to) investing activities</b>		
(Acquisition) of property, plant and equipment and intangible assets	(17,319)	(5,818)
Disposal of property, plant and equipment	511	451
Proceeds from sales of investments	(10)	(10)
Repayment of loans granted	2,076	1,205
Loans (granted)	(3,811)	(3,380)
Interest received	349	555
<b>Net cash flows (to) investing activities</b>	<b>(18,204)</b>	<b>(6,997)</b>

(Cont'd on the next page)

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

	<b>Group</b>	
	<u>As of 30 September 2011</u>	<u>As of 30 September 2010</u>
<b>Cash flows from (to) financing activities</b>		
Dividends , tantiemes (paid)	(5,500)	(2,600)
Cash, (transferred) during reorganization	-	-
Loans received	26,932	-
(Repayment) of loans	(8,003)	(18,349)
Financial lease (payments)	(2,757)	(3,946)
Sponsorship Received	-	684
Other revenue from financial activities	2,752	-
Interest (paid)	(386)	(370)
<b>Net cash flows (to) financial activities</b>	<b>13,038</b>	<b>(24,581)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(163)</b>	<b>(9,985)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>8,766</b>	<b>24,629</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>8,603</b>	<b>14,644</b>

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



## 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 2011 and 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 December 2010, the Company also had no its own shares. But as of 30 September 2011, the Company had its own 11 pcs shares by 2532 LTL.

As of 30 September 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 09 30	Main activities
ABF „Šilutės Rambynas“	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	10.878	12,538	14,171	Cheese production
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	12 %	100%	60	482	413	Milk collection services
SIA "Muižas piens"	Skaistkalnes g. 1, Rīga, Latvija	32 %	-	4	13		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 30 September 2011, the number of employees of the Group was 1521 ( as of 30 September 2010 – 1567 ).

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

30 September 2011

Sales, thousand LTL	372,512
Gross profit, thousand LTL	70,659
EBITDA, thousand LTL	20,050
Current ratio ( at the end of period)	2,674
Book value per share ( at the end of period )	2,49

## 2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the nine months ended 30 September 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. 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.