

**ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2010**

CONTENTS

INDEPENDENT AUDITOR'S REPORT	3 – 4
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS	
Statement of comprehensive income	5
Balance sheet	6
Statement of changes in equity	7 – 8
Statement of cash flows	9
Notes to the financial statements	10 – 49
CONSOLIDATED ANNUAL REPORT	1 – 77



Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of Rokiskio Suris AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Rokiskio Suris AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5–49 which comprise the stand alone and consolidated balance sheet as of 31 December 2010 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these Financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

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Opinion

In our opinion, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2010, and of 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 the consolidated Annual Report for the year ended 31 December 2010 and have not noted any material inconsistencies between the financial information included in it and the audited Financial statements for the year ended 31 December 2010.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in black ink, appearing to read 'C. Butler', written over a faint circular stamp.

Christopher C. Butler
Director

Vilnius, Republic of Lithuania
8 April 2011

A handwritten signature in black ink, appearing to read 'Rimvydas Jogėla', written over a faint circular stamp.

Rimvydas Jogėla
Auditor's Certificate No.000457

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Statement of comprehensive income

Group			Company	
Year ended 31 December			Year ended 31 December	
2010	2009	Note	2010	2009
553,760	560,395	Revenue	533,555	495,688
(475,670)	(483,418)	Cost of sales	(472,573)	(445,211)
78,090	76,977	Gross profit	60,982	50,477
(31,173)	(30,602)	Selling and marketing expenses	(18,230)	(17,734)
(22,503)	(27,475)	General and administrative expenses	(17,354)	(20,576)
12,208	9,340	Other income	11,555	9,175
(6,908)	(5,875)	Other expenses	(6,962)	(5,991)
(51)	(7)	Other (losses)/gains	(20)	(7)
29,663	22,358	Operating profit	29,971	15,344
(1,017)	(2,264)	Finance costs	(1,017)	(2,261)
28,646	20,094	Profit before income tax	28,954	13,083
(4,085)	(5,105)	Income tax	(4,076)	(4,733)
24,561	14,989	Profit for the year	24,878	8,350
-	-	Other comprehensive income	-	-
24,561	14,989	Total comprehensive income for the year	24,878	8,350
Attributable to:				
24,625	14,748	Owners of the Company		
(64)	241	Non-controlling interest		
24,561	14,989			
0.65	0.38	Basic and diluted earnings per share (expressed in LTL per share)	0.66	0.21


The notes on pages 10 to 49 are an integral part of these financial statements.

The financial statements on pages 5 to 49 have been approved for issue by the Board of Directors on 8 April 2011 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
 Director



Antanas Kavaliauskas
 Chief Finance Officer



ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Balance sheet

Group			Company		
At 31 December			At 31 December		
2010	2009	Note	2010	2009	
ASSETS					
Non-current assets					
88,476	108,577	Property plant and equipment	15	62,529	79,586
492	390	Intangible assets	16	564	400
546	186	Investments in subsidiaries	17	27,487	28,304
1,297	374	Deferred income tax assets	18	1,297	374
6,886	-	Available-for-sale financial assets	31	6,886	-
13,059	17,605	Loans granted	19	11,567	17,605
3,229	-	Other receivables	21	3,229	-
113,985	127,132		113,559	126,269	
Current assets					
62,586	30,222	Inventories	20	55,558	24,478
35,332	19,377	Loans granted	19	30,519	17,626
90,081	67,332	Trade and other receivables	21	90,206	55,866
1,152	2,472	Prepaid income tax		645	889
19,524	101,187	Cash and cash equivalents	22	17,902	100,797
208,675	220,590		194,831	199,656	
322,660	347,722	Total assets		308,390	325,925
EQUITY					
Attributable to owners of the Company					
38,445	38,445	Share capital	23	38,445	38,445
41,473	41,473	Share premium		41,473	41,473
29,188	14,188	Reserve for acquisition of treasury shares	25	29,188	14,188
(11,478)	-	Treasury shares	24	(11,478)	-
7,433	7,074	Other reserves	25	7,433	7,074
89,123	83,741	Retained earnings		77,748	72,073
194,184	184,921			182,809	173,253
450	514	Minority interest			
194,634	185,435	Total equity		182,809	173,253
LIABILITIES					
Non-current liabilities					
103	137	Borrowings	26	-	-
396	385	Deferred income tax liability	18	-	-
4,989	7,296	Deferred income	27	3,031	5,241
5,488	7,818			3,031	5,241
Current liabilities					
4,995	965	Income tax liabilities		4,992	323
58,973	99,463	Borrowings	26	58,973	99,462
2,806	2,983	Deferred income	27	2,299	2,548
54,940	50,234	Trade and other payables	28	55,462	44,274
824	824	Provisions	29	824	824
122,538	154,469			122,550	147,431
128,026	162,287	Total liabilities		125,581	152,672
322,660	347,722	Total equity and liabilities		308,390	325,925

The notes on pages 10 to 49 are an integral part of these financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Company's statement of changes in equity

	Note	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2009		42,716	41,473	28,746	(15,492)	7,074	63,723	168,240
Comprehensive income		-	-	-	-	-	8,350	8,350
Total comprehensive income for 2009		-	-	-	-	-	8,350	8,350
Transactions with owners								
Acquisition of treasury shares	24	-	-	-	(3,337)	-	-	(3,337)
Transfer to legal and other reserves	24	(4,271)	-	(14,558)	18,829	-	-	-
Total transactions with owners for 2009		(4,271)	-	(14,558)	15,492	-	-	(3,337)
Balance at 31 December 2009		38,445	41,473	14,188	-	7,074	72,073	173,253
Comprehensive income		-	-	-	-	-	24,878	24,878
Total comprehensive income for 2010		-	-	-	-	-	24,878	24,878
Transactions with owners								
Acquisition of treasury shares	24	-	-	-	(11,478)	-	-	(11,478)
Transfer to reserves	25	-	-	15,000	-	359	(15,359)	-
Dividends relating to 2009	25	-	-	-	-	-	(3,844)	(3,844)
Total transactions with owners for 2010		-	-	15,000	(11,478)	359	(19,203)	(15,322)
Balance at 31 December 2010		38,445	41,473	29,188	(11,478)	7,433	77,748	182,809

The notes on pages 10 to 49 are an integral part of these financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Group's statement of changes in equity

		Attributable to owners of the Company								
Note	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total	
	Balance at 1 January 2009	42,716	41,473	28,746	(15,492)	7,074	68,993	173,510	273	173,783
	Comprehensive income	-	-	-	-	-	14,748	14,748	241	14,989
	Total comprehensive income for 2009	-	-	-	-	-	14,748	14,748	241	14,989
	Transactions with owners									
	Acquisition of treasury shares	24	-	-	(3,337)	-	-	(3,337)	-	(3,337)
	Decrease in share capital / cancellation of treasury shares	24	(4,271)	-	(14,558)	18,829	-	-	-	-
	Total transactions with owners for 2009		(4,271)	-	(14,558)	15,492	-	(3,337)	-	(3,337)
	Balance at 31 December 2009	38,445	41,473	14,188	-	7,074	83,741	184,921	514	185,435
	Comprehensive income						24,625	24,625	(64)	24,561
	Total comprehensive income for 2010						24,625	24,625	(64)	24,561
	Transactions with owners									
	Acquisition of treasury shares	24	-	-	(11,478)	-	-	(11,478)	-	(11,478)
	Transfer to reserves	25	-	-	15,000	-	359	(15,359)	-	-
	Dividends relating to 2009	25	-	-	-	-	(3,884)	(3,884)	-	(3,884)
	Total transactions with owners for 2010		-	-	15,000	(11,478)	359	(19,243)	(15,362)	(15,362)
	Balance at 31 December 2010	38,445	41,473	29,188	(11,478)	7,433	89,123	194,184	450	194,634

The notes on pages 10 to 49 are an integral part of these financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Statement of cash flows

<u>Group</u>			<u>Company</u>	
Year ended 31 December			Year ended 31 December	
2010	2009	Note	2010	2009
			Cash flows from operating activities	
2,077	128,068			
(1,016)	(2,264)			
(993)	3,070			
68	128,874		(10,354)	126,221
			Cash flows from investing activities	
(6,524)	(8,090)			
(239)	(113)			
(10,644)	-			
(9,469)	(1,841)			
(16,292)	(17,668)			
289	843			
842	2,080			
7,505	16,357			
4,760	4,646			
3,930	1,233			
(25,842)	(2,553)		(16,731)	266
			Cash flows from financing activities	
(3,844)	-			
(11,478)	(3,337)			
495,538	304,761			
(531,425)	(327,381)			
(51,209)	(25,957)		(51,130)	(25,902)
			Net (decrease)/increase in cash and cash equivalents	
(76,983)	100,364		(78,215)	100,585
			Cash and cash equivalents at beginning of year	
81,582	(18,782)		81,191	(19,394)
			Cash and cash equivalents at end of year	
4,599	81,582		2,976	81,191

The notes on pages 10 to 49 are an integral part of these financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Notes to the financial statements

1. General information

Rokiškio Sūris AB (hereinafter "the Company") is a public listed company incorporated in Rokiškis. The Company's code is 173057512 address: Pramonės St. 3 LT-42150 Rokiškis Lithuania.

The shares of Rokiškio Sūris AB are traded on the Baltic Main List (RSU1L) of NASDAQ OMX Vilnius stock exchange.

The consolidated Group (hereinafter "the Group") consists of the Company its two branches, five subsidiaries and one joint venture (hereinafter "the joint venture") (2009: two branches, five subsidiaries and one joint venture). The branches and subsidiaries that comprise the consolidated Group are indicated below:

	Operating as at 31 December			Shareholding of the Group (%) as at 31 December	
	2010	2009		2010	2009
Branches			Subsidiaries		
Utenos Pienas	Yes	Yes	Rokiškio Pienas UAB	100.00	100.00
Ukmergės Pieninė	Yes	Yes	Skeberdis ir Partneriai UAB	-	100.00
			Skirpstas UAB	100.00	100.00
			Žalmargė KB	100.00	100.00
			<i>Batėnai UAB*</i>	-	100.00
			<i>Pečupė UAB*</i>	-	100.00
			Europienas UAB	-	100.00
			Jekabpils Piena Kombinats SIA	50.05	50.05
			<i>Kaunata SIA *</i>	60.00	-
			Joint venture		
			Pieno Upės UAB	50.00	50.00

* These subsidiaries were not consolidated due to their insignificance. The subsidiaries were reorganised and terminated in 2009: Skeberdis ir Partneriai UAB, Pečupė UAB, Europienas UAB. Subsidiary Batenai UAB (Note 17) was sold in 2010.

All the above-mentioned subsidiaries, a joint venture and branches are incorporated in Lithuania except for Jekabpils Piena Kombinats SIA and Kaunata SIA, which are incorporated in Latvia. Kaunata SIA was acquired on 11 May 2010 (Rokiskio Suris AB acquired 40% for LTL 353,000 and Rokiskio Pienas UAB – 20% for LTL 176,000).

Non-audited figures of Kaunata SIA as at 31 December 2010 are as follows:

Total asset: LVL 167,252 (LTL 813,563);

Property, Plant and Equipment amount: LVL 37,141 (LTL 180,665);

Net asset: LVL 130,242 LVL (LTL 633,536);

Sales: LVL 740,035 (LTL 3,599,752);

Results of operations: LVL 37,613 (LTL 182,960);

Type of activity of Kaunata SIA: milk purchase from farmers: the Company is the main raw milk provider for Jekabpils Piena Kombinats SIA.

The Group's and the Company's main line of business is the production of ferment cheese and a wide range of milk products.

The average number of the Company's employees during the year ended 31 December 2010 was 1,026 people (2009: 1,089 people). The average number of the Group's employees during the year ended 31 December 2010 was 1,607 people (2009: 1,786 people).

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

2. Accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the valuation of available-for-sale financial assets at fair value.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions actual results ultimately may differ from those estimates (Note 4).

(a) Relevant new or amended standards and interpretations effective in 2010:

- IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The revised ISA 27 does not have any impact on the Group's or Company's financial statements.
- IFRS 3 'Business Combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised standard does not have significant impact on the Group's financial statements.
- In April 2009 the EU endorsed the Improvements to IFRSs (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations. These amendments do not have significant impact on the Group's or Company's financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(b) New standards and its amendments in 2010, which are not applicable in Company and Group activity:

- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment does not have any impact on the Group's or Company's financial statements.
- IFRIC 12 'Service Concession Arrangements' (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009) The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. Application of IFRIC 12 does not have any impact on the Group's or Company's financial statements.
- IFRIC 15 'Agreements for the Construction of Real Estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment does not have any impact on the Group's or Company's financial statements.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009). IFRIC 16 does not have any impact on the Group's or Company's financial statements.
- IFRIC 17 'Distribution of Non-Cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 should not be applicable to the Company. IFRIC 17 does not have any impact on Group's or the Company's financial statements.
- IFRIC 18 'Transfers of Assets from Customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 does not have any impact on the Group's or Company's financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

- Eligible Hedged Items—Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This amendment does not have an impact on the Group's or Company's financial statements.
- IFRS 1 'First-time Adoption of International Financial Reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard does not have any impact on the Group's or Company's financial statements.
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments do not have any impact on the Group's or Company's financial statements.
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 January 2010). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments do not have any impact on the Group's or Company's financial statements.

(c) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Company and the Group

- IFRS 9, 'Financial instruments' (issued in November 2009; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Group and the Company do not expect the standard to have a significant impact on the financial statements.
- Classification of rights issues – Amendment to IAS 32, 'Financial instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). This amendment does not have an impact on the Group's and the Company's financial statements.
- Prepayments of a minimum funding requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This interpretation does not have any impact on the Group's and the Company's financial statements.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010). This interpretation does not have any impact on the Group's and the Company's financial statements.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendments to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). This interpretation does not have any impact on the Group's and the Company's financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The Group and the Company do not expect the improvements to have a significant impact on the financial statements.
- Disclosures—Transfers of financial assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The Group and the Company do not expect the amendments to have a significant impact on the financial statements.
- Deferred Tax: Recovery of underlying assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The Group and the Company do not expect the amendment to have a significant impact on the financial statements.
- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). This amendment will not have any impact on the Group's and the Company's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquirer either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquirer and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(b) Transactions and minority interest

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(c) Joint ventures

The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements. The group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The group does not recognise its share of profits or losses from the joint venture that result from the group's purchase of assets from the joint venture until it resells the assets to an independent party. However a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

2.3 Stand-alone financial statements

Subsidiaries in the stand-alone financial statements are accounted at cost less impairment charge – that is the income from the investment is recognized in full where Company receives distributions from accumulated profits of the investee. Distributions received from accumulated profits arising before the date of acquisition are tested for impairment.

2.4 Foreign currency translation

(a) Functional and presentation currency

The items shown in the financial statements of the Company and each company of the Group are valued by the currency of the original economic environment wherein a specific company operates (hereinafter the "functional currency"). These financial statements are presented in Litas (LTL) which is the Company's (and each of the Group entity's) functional and presentation currency, with exception for subsidiaries in Latvia, which functional currency is Latvian Lats (LVL).

With effect from 2 February 2002 the litas has been pegged with the euro at an exchange rate of LTL 3.4528 to EUR 1.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.5 Property plant and equipment

Property plant and equipment are stated at historical cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Useful lives of property plant and equipment are given in the table below:

Buildings	15-55 years
Plant and machinery	5-29 years
Motor vehicles	4-10 years
Equipment and other property plant and equipment	3-20 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate group of property plant and equipment when it is completed and ready for its intended use.

When property is retired or otherwise disposed the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount and are included in operating profit.

2.6 Intangible assets

(a) Computer software

Software assets expected to provide economic benefit to the Company and the Group in future periods are valued at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 1 to 5 years.

(b) Contractual customer relationships

Contractual customer relationships recognized as intangible asset upon business acquisition are accounted for at cost less accumulated amortization and impairment. Contractual customer relationships are amortised on the straight-line basis over the estimated useful life of 2 years.

(All tabular amounts are in LTL '000 unless otherwise stated)

2.7 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Financial assets

a) Loans and receivables

The Group classifies its financial assets in a category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the end of the reporting period.

Available-for-sale financial assets are recognised initially at fair value plus transaction costs and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

Upon the disposal or impairment of available-for-sale investments, the accumulated fair value adjustment recognised in equity is included in profit or loss in the statement of comprehensive income.

The fair value of investments traded in active financial markets is based on quoted closing market prices at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis and other valuation models.

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income.

2.9 Inventories

Inventories are subsequently carried at the lower of cost and net realisable value. Cost is determined by the first-in first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials direct labour other direct costs and related indirect production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

2.10 Loans granted, trade and other receivables

Loans granted and amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less the amount of impairment loss. A provision for impairment of amounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The impairment amount is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within 'general and administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement cash and cash equivalents comprise cash on hand and at bank and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

2.12 Share capital

(a) Ordinary shares

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their nominal value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

(b) Treasury shares

Where the Company or its subsidiaries purchase the Company's equity share capital the consideration paid including any attributed incremental external costs is deducted from shareholders' equity as treasury shares until they are sold reissued or cancelled. No gain or loss is recognised in the statement of comprehensive income on the sale issuance or cancellation of treasury shares. Where such shares are subsequently sold or reissued any consideration received is presented in the consolidated financial statements as a change in shareholders' equity.

2.13 Reserves

(a) Other reserves

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. This reserve may be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

(b) Reserve for acquisition of treasury shares

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the acquisition cost of treasury shares acquired.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

2.14 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the amount at initial recognition and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Interest expense on borrowing is expensed in the statement of comprehensive income.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Profit is taxable at a rate of 15 per cent (2009: 20 per cent) in accordance with the Lithuanian regulatory legislation on taxation.

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Leases – where the Group is the lessee

(a) Finance lease

Leases of property plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations net of future finance charges are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The items of property plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or lease term of the asset.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(b) Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.17 Employee benefits

(a) Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax returns rebates and discounts and after eliminating sales within the Group. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

Revenue for delivering transportation services is recognized in the period when services are performed.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired the Group reduces the carrying amount to its recoverable amount being the estimated future cash flow discounted at original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.19 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

2.20 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to the shareholders from average weighted number of ordinary registered shares in issue excluding ordinary registered shares purchased by the Company and the Group and held as treasury shares.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors that makes strategic decisions.

The Group's management distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter, milk cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products production process types of customers and the method of distribution.

2.22 Government grants and subsidies

Government grants are recognised at fair value where there is sufficient evidence that the grant will be received and the Group and the Company will comply with all attached conditions.

Export subsidies paid by the Government for each exported tone of products meeting certain requirements are included in sales revenue.

Government grants received to finance acquisition of property plant and equipment are included in non-current deferred income in the balance sheet. They are recognised as income on a straight-line basis over the useful life of property plant and equipment concerned.

2.23 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group and the Company have a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using pre-tax rate that reflects current market assessments of the time value of money and the risks specified to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

3. Financial risk management

3.1 Financial risk factors

The Group's and the Company's activities expose them to a variety of financial risks. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

Risk management is carried out by the Company's management. There are no written principles for overall risk management in place.

(a) Market risk

(i) Foreign exchange risk

The Company and the Group operate internationally however their exposure to foreign exchange risk is set at minimum level since sales outside Lithuania are performed mostly in the euros. The exchange rate of the euro and the litas is fixed.

(ii) Cash flow and fair value interest rate risk

The Company's and the Group's interest rate risk arises from interest-bearing loans and long-term borrowings issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. In 2010 and 2009 loans granted by the Group at a fixed interest rate were denominated in litas. In 2010 and 2009 borrowings issued to the Group at a variable interest rate were denominated in litas and the euros.

As at 31 December 2010 the Company's and the Group's net liabilities sensitive to interest rate risk amounted to LTL 21,227 thousand and LTL 15,170 thousand respectively (31 December 2009: LTL 83,356 thousand and LTL 83,570 thousand respectively). If interest rate increases / decreases by 0.5 percentage point (2009: 0.5 percentage point) the Company's and the Group's profit would decrease / increase by LTL 106 thousand and LTL 76 thousand respectively (2009: profit would decrease / increase by LTL 417 thousand and 418 thousand respectively).

(b) Credit risk

Credit risk arises from cash balances at banks loans granted and trade receivables.

As at 31 December 2010 all Company's and Group's cash balances were held in banks that had external credit ratings from 'A' to 'B+' as set by the rating agency *Fitch Ratings* (31 December 2009: from 'A' to 'AA-').

i) Maximum exposure to credit risk

The table below summarises the Company's and the Group's credit risk exposures relating to on-balance sheet items. Maximum exposure to credit risk before collateral held or other credit enhancements as at 31 December:

Group			Company	
2010	2009		2010	2009
19,524	101,187	Cash and cash equivalents at banks	17,902	100,797
83,872	62,226	Trade receivables	86,000	53,182
48,391	36,982	Loans granted	42,086	35,231
3,229	-	Other receivables	3,229	-
155,016	200,395		149,217	189,210

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

ii) Credit quality of financial assets

The Group does not classify amounts receivable and other financial assets exposed to credit risk according to credit quality. Credit risk is managed through established credit limits for a major customers and monitoring of overdue receivables and loans. Credit limits and overdue receivables are continuously monitored by the Company's and the Group's management.

Credit limits and receivables as at 31 December 2010 for the major 9 customers are summarised below:

Group			Company	
Credit limit	Receivables		Credit limit	Receivables
11,000	10,968	Customer A	11,000	10,968
10,600	9,829	Customer B	10,600	9,829
6,000	5,820	Customer C	6,000	5,820
6,000	5,561	Customer D	6,000	5,561
5,900	5,852	Customer E	5,900	5,852
5,500	5,137	Customer F	5,500	5,137
3,000	2,904	Customer G	3,000	2,904
16,500	9,000	Customer H		
8,940	5,153	Customer I		

Credit limits and receivables as at 31 December 2009 for the major 9 customers are summarised below:

Group			Company	
Credit limit	Receivables		Credit limit	Receivables
8,000	4,500	Customer A	8,000	4,500
6,000	6,109	Customer B	6,500	6,109
5,000	5,889	Customer C	6,000	5,889
4,700	4,701	Customer D	4,700	4,701
3,000	3,094	Customer E	3,000	3,094
3,000	3,036	Customer F	3,000	3,036
16,500	8,863	Customer G	-	-
8,940	3,508	Customer H	-	-
4,000	1,807	Customer I	-	-

Trade receivables did not significantly exceed the established credit limits.

The table below summaries concentration of the loans granted:

Group			Company	
2010	2009		2010	2009
28,576	23,077	Loans granted for amount of above LTL 2 million	23,572	21,523
8,016	3,108	Loans granted for amount above LTL 1 million but not more than LTL 2 million	7,608	3,108
11,799	10,797	Loans granted for amount less than LTL 1 million	10,906	10,600
48,391	36,982		42,086	35,231

Loans for amount of above LTL 2 million were granted to the following companies: Agrofirma Turima SIA, Litrada UAB, Pieno Pramonės Investicijų Valdymas, UAB Maxima UAB, Fobus un K SIA.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(c) Liquidity risk

Prudent liquidity risk management allows maintaining sufficient cash and availability of funding under committed credit facilities.

The table below summarises the Group's and the Company's financial liabilities. The financial liabilities are classified into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Accounts payable and other financial liabilities due within 3 months or less are equal to their carrying amounts as the impact of discounting is insignificant.

Company

At 31 December 2010	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	33,833	25,709	-	-
Trade payables	45,887	-	-	-
Other payable	9,575	-	-	-
	89,295	25,709	-	-

At 31 December 2009	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	59,942	40,198	-	-
Trade payables	37,953	-	-	-
Other payable	6,321	-	-	-
	104,216	40,198	-	-

Group

At 31 December 2010	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	33,833	25,709	103	-
Trade payables	42,498	-	-	-
Other payable	12,442	-	-	-
	88,773	25,709	103	-

At 31 December 2009	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	59,942	40,199	137	-
Trade payables	41,780	-	-	-
Other payable	8,454	-	-	-
	110,176	40,199	137	-

3.2. Capital risk management

The Company's and the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group and Company may adjust the amount of dividends paid to shareholders return capital to shareholders issue new shares or sell assets to reduce debt.

The Company and the Group define their capital as equity and debt less cash and cash equivalents.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

As at 31 December the Group's and the Company's capital structure was as follows:

Group			Company	
2010	2009		2010	2009
59,076	99,600	Borrowings	58,973	99,462
(19,524)	(101,187)	Less: cash and cash equivalents	(17,902)	(100,797)
39,552	(1,587)	Net debt	41,071	(1,335)
194,634	185,435	Shareholders' equity	182,809	173,253
234,186	183,848	Total capital	223,880	171,918

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100,000 (the authorised share capital of a private company must not be less than LTL 10,000) and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2010 and 31 December 2009 the Company and its subsidiaries registered in Lithuania complied with these requirements.

3.3. Fair value estimation

Trade payables and trade receivables accounted for in the balance sheet should be settled within a period shorter than three months therefore it is deemed that their fair value equals to their carrying amount less impairment. Interest rate on the borrowings received by the Company is subject to repricing at least every six months therefore it is deemed that their fair value equals their carrying amount.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

4. Critical accounting estimates and judgements

Provision for impairment of loans and accounts receivable

Provision for impairment of accounts receivable and loans granted was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. Current estimates of the Company and the Group could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Estimates of useful lives of property plant and equipment

The Company and the Group have old buildings and machinery where the useful lives are estimated based on the projected product lifecycles. However economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

5. Segment reporting

Operating segments and reportable segments

The Group's management distinguished the following operating segments of the Group: hard cheese, semi-hard cheese, butter milk, cream, sour cream, sour milk, yogurt, curd, curd cheese and other. These segments were combined into two main reportable segments based on the similar nature of products production process types of customers and the method of distribution.

The main two reportable business segments of the Group are as follows:

- Fresh milk products
- Cheese and other dairy products

Other operations of the Group mainly comprise of milk collecting activity which is not of a sufficient size to be reported separately. Transactions between the business segments are on normal commercial terms and conditions.

Segment information for the years ended 31 December 2010 and 2009:

	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2010				
Sales	244,738	533,555	51,720	830,013
Sales to other segments	(44,987)	(180,803)	(50,463)	(276,253)
Sales – external	199,751	352,752	1,257	553,760
Segment's gross profit/(loss)	15,193	60,982	1,915	78,090
Depreciation and amortisation	5,031	21,077	284	26,392
Income tax expense	(84)	4,076	93	4,085
Total assets	70,589	308,389	9,389	388,367
Intercompany eliminations				(65,707)
Total assets less intercompany				322,660
Additions to non-current assets (other than financial instruments and deferred tax assets)	2,142	4,264	118	6,524
Total liabilities	33,262	125,580	4,279	163,121
Intercompany eliminations				(35,095)
Total liabilities less intercompany				128,026

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2009				
Sales	226,760	495,688	31,458	753,906
Sales to other segments	(12,497)	(150,831)	(30,183)	(193,511)
Sales – external	214,263	344,857	1,275	560,395
Segment's gross profit/(loss)	23,096	50,477	3,404	76,977
Depreciation and amortisation	4,369	23,104	2,432	29,893
Income tax expense	372	4,733	-	5,105
Total assets	57,940	325,925	7,654	391,519
Intercompany				(43,797)
Total assets less intercompany				347,722
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,448	4,463	179	8,090
Total liabilities	17,942	152,672	6,993	171,607
Intercompany				(15,320)
Total liabilities less intercompany				162,287

Geographical information

All the Company's assets are located in Lithuania. The Company's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2010	2009	2010	2009	2010	2009
Lithuania	191,934	191,140	308,390	325,925	4,264	4,463
Europe Union countries	248,996	247,215	-	-	-	-
Other countries	92,625	57,333	-	-	-	-
	533,555	495,688	308,390	325,925	4,264	4,463

The breakdown of the Group's assets by geographical segments is presented below. The Group's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2010	2009	2010	2009	2010	2009
Lithuania	201,784	243,679	321,789	347,050	6,422	7,960
Europe Union countries	259,351	259,383	871	672	102	130
Other countries	92,625	57,333	-	-	-	-
	553,760	560,395	322,660	347,722	6,524	8,090

Sales are allocated based on the country in which the customers are located.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

The analysis of the Company's revenue by category:

	2010	2009
Revenue from sales of goods	511,518	472,320
Export subsidies	374	2,634
Other revenue (milk transportation)	21,663	20,734
	533,555	495,688

The analysis of the Group's revenue by category:

	2010	2009
Revenue from sales of goods	550,905	556,856
Export subsidies	374	2,634
Other revenue (milk transportation)	2,481	905
	553,760	560,395

Pursuant to the European Commission Regulation *On definition of compensation for milk and milk product export costs* with effect from 1 May 2004 the Company is entitled to receive subsidies for cheese exported to the countries specified in the Regulation. Export subsidies are paid for each tone of exported products that meet certain requirements attached to the Regulation.

6. Selling and marketing expenses

Group			Company	
2010	2009		2010	2009
4,727	5,878	Marketing services	-	575
7,373	6,895	Wages and salaries	3,424	3,451
9,474	10,140	Transportation services	8,215	8,497
1,594	1,649	Product image creation and advertising expenses	64	145
2,297	1,538	Repairs and maintenance	1,928	1,264
1,900	1,898	Depreciation of property plant and equipment	1,623	1,716
10	22	Warehousing services	10	22
3,798	2,582	Other expenses	2,966	2,064
31,173	30,602		18,230	17,734

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

7. General and administrative expenses

Group			Company	
2010	2009		2010	2009
6,965	7,235	Wages and salaries	4,581	3,765
191	246	Taxes (other than income tax)	104	131
3,068	527	Provisions for impairment of loans granted and write-offs of loans (Note 19 and Note 21)	1,545	527
-	5,123	Provisions for impairment of doubtful receivables	-	5,123
95	1,603	Consultations	483	733
144	1,000	Write-offs of investments (Note 17)	1,144	1,469
-	-	Write-off of amount receivable from the liquidated subsidiary Europienas UAB	-	2,052
1,143	3,386	Depreciation of property plant and equipment and amortisation of intangible assets	647	745
681	623	Repairs and maintenance	571	472
4,918	3,000	Paid and accrued bonuses	4,918	3,000
343	473	Telecommunications and IT maintenance expenses	240	239
201	206	Insurance expenses	144	172
-	66	Write-offs of property plant and equipment	-	-
658	392	Bank charges	599	333
152	-	Business trips	90	-
162	217	Fines	6	10
200	53	Staff training	179	31
118	18	Membership fees	113	11
348	206	Charity support	205	54
3,116	3,102	Other expenses	1,785	1,709
<u>22,503</u>	<u>27,475</u>		<u>17,354</u>	<u>20,576</u>

8. Other income

Group			Company	
2010	2009		2010	2009
6,491	5,355	Re-sale of goods	6,518	5,447
3,930	1,719	Interest income	3,581	1,719
1,787	2,266	Other income	1,456	2,009
<u>12,208</u>	<u>9,340</u>		<u>11,555</u>	<u>9,175</u>

9. Other expenses

Group			Company	
2010	2009		2010	2009
6,433	5,263	Cost of goods resold	6,464	5,362
475	612	Other expenses	498	629
<u>6,908</u>	<u>5,875</u>		<u>6,962</u>	<u>5,991</u>

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

10. Other operating losses

Group			Company	
2010	2009		2010	2009
(51)	(7)	Loss on disposal of property plant and equipment (Note 32)	(20)	(7)
(51)	(7)		(20)	(7)

11. Expenses by nature

Group			Company	
2010	2009		2010	2009
355,191	285,956	Raw materials and consumables used	333,383	272,769
(32,364)	57,452	Changes in inventories of finished goods and work in progress	(31,080)	56,163
46,320	50,360	Salaries including social security costs	29,377	29,661
39,642	34,050	Transportation services	30,139	32,394
4,918	3,000	Paid and accrued bonuses	4,918	3,000
26,392	29,893	Depreciation and amortisation	21,077	23,124
(3,326)	(3,089)	Amortisation of the Government grant for property plant and equipment (Note 27)	(2,812)	(2,655)
4,727	5 878	Marketing services	-	575
8,731	7,661	Repairs and maintenance	7,962	6,942
-	-	Cost of finished goods resold	35,696	2,666
-	1,000	Write-offs of investments	1,144	1,469
3,068	5,123	Impairment of amounts receivable	1,545	5,123
-	-	Write-offs of amounts receivable from liquidated companies	-	2,052
381	455	Taxes (other than income tax)	280	327
95	1,603	Consultations	483	733
430	565	Telecommunications and IT maintenance expenses	326	331
38,217	38,803	Utilities (energy)	23,945	23,418
36,924	22,785	Other	51,774	25,429
529,346	541,495	Total cost of sales selling and marketing expenses and general and administrative expenses	508,157	483,521

12. Finance costs

Group			Company	
2010	2009		2010	2009
1,016	2,261	Interest expense:	1,016	2,259
1	3	- bank borrowings	1	2
1,017	2,264	- finance leases	1,017	2,261

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

13. Income tax

Group			Company	
2010	2009		2010	2009
(5,144)	(822)	Current income tax	(4,993)	(322)
147	-	Prior year income tax corrections	(6)	-
912	(4,283)	Deferred income tax (Note 18)	923	(4,411)
<u>(4,085)</u>	<u>(5,105)</u>	Income tax benefit (expenses)	<u>(4,076)</u>	<u>(4,733)</u>

The tax on the Company's and the Group's profit before tax differs from the theoretical amount that would arise when using the basic tax rate as follows:

Group			Company	
2010	2009		2010	2009
28,646	20,094	Profit/(loss) before income tax	28,954	13,083
4,297	4,019	Tax calculated at a rate of 15% (2009: 20%) (Note 2.15)	4,343	2,617
410	2,711	Expenses not deductible for tax purposes	192	2,711
(190)	(895)	Income not subject to tax	(142)	(355)
(98)	(66)	Charity expenses deductible twice for tax purposes	(55)	(6)
(340)	(684)	Other expenses deductible for tax purposes	(268)	(254)
6	-	Prior year income tax corrections	6	-
-	20	Effect of income tax rate change	-	20
<u>4,085</u>	<u>5,105</u>	Income tax expense/(income)	<u>4,076</u>	<u>4,733</u>

Expenses not deductible for tax purposes relate to staff entertaining and certain write offs and income not deductible to insurance payments and penalties received.

The tax authorities have carried out full-scope tax audits at the Company for the year 2001. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out the inspection of book-keeping and accounting records and impose additional taxes or fines. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

14. Earnings per share

Group			Company	
2010	2009		2010	2009
24,561	14,989	Net profit (loss) attributable to shareholders	24,878	8,350
37,663	39,330	Weighted average number of ordinary shares in issue (thousand)	37,663	39,330
<u>0.65</u>	<u>0.38</u>	Basic earnings (deficit) per share (LTL per share)	<u>0.66</u>	<u>0.21</u>

The Group has no dilutive potential ordinary shares therefore the diluted earnings per share are the same as basic earnings per share.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

15. Property plant and equipment

Company	Buildings	Plant and machinery	Vehicles equipment & other	Construction in progress	Total
At 1 January 2009					
Cost	34,978	137,389	73,476	90	245,933
Accumulated depreciation	(10,952)	(84,529)	(51,605)	-	(147,086)
Net book amount	24,026	52,860	21,871	90	98,847
Year ended 31 December 2009					
Opening net book amount	24,026	52,860	21,871	90	98,847
Additions	208	2,131	1,222	902	4,463
Disposals	(221)	(119)	(209)	-	(549)
Write-offs	-	(4)	(67)	-	(71)
Transfers from CIP	158	212	275	(645)	
Depreciation charge	(1,273)	(14,756)	(7,075)		(23,104)
Closing net book amount	22,898	40,324	16,017	347	79,586
At 31 December 2009					
Cost	35,006	138,083	72,359	347	245,795
Accumulated depreciation	(12,108)	(97,759)	(56,342)	-	(166,209)
Net book amount	22,898	40,324	16,017	347	79,586
Year ended 31 December 2010					
Opening net book amount	22,898	40,324	16,017	347	79,586
Additions	9	2,124	1,931	200	4,264
Disposals	(114)	(82)	(93)	-	(289)
Write-offs	-	(20)	(10)	-	(30)
Transfers from CIP	-	280		(280)	
Depreciation charge	(1,211)	(13,234)	(6,557)	-	(21,002)
Closing net book amount	21,582	29,392	11,288	267	62,529
At 31 December 2010					
Cost	34,861	139,310	72,636	267	247,074
Accumulated depreciation	(13,279)	(109,918)	(61,348)	-	(184,545)
Net book amount	21,582	29,392	11,288	267	62,529

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Group	Buildings	Plant and machinery	Vehicles equipment & other	Construct- ion in progress	Total
At 1 January 2009					
Cost	48,696	155,226	77,665	90	281,677
Accumulated depreciation	(12,128)	(87,453)	(52,890)	-	(152,471)
Net book amount	36,568	67,773	24,775	90	129,206
Year ended 31 December 2009					
Opening net book amount	36,568	67,773	24,775	90	129,206
Additions	298	4,780	1,347	1,665	8,090
Disposals	(287)	385	(948)		(850)
Write-offs	(19)	(16)	(84)		(119)
Transfers from CIP	431	702	275	(1,408)	-
Depreciation charge	(1,988)	(17,902)	(7,860)		(27,750)
Closing net book amount	35,003	55,722	17,505	347	108,577
At 31 December 2009					
Cost	48,967	160,283	75,013	347	284,610
Accumulated depreciation	(13,964)	(104,561)	(57,508)		(176,033)
Net book amount	35,003	55,722	17,505	347	108,577
Year ended 31 December 2010					
Opening net book amount	35,003	55,722	17,505	347	108,577
Additions	114	3,058	2,076	1,276	6,524
Disposals	(114)	(109)	(117)		(340)
Write-offs		(20)	(10)		(30)
Transfers from CIP		862		(862)	
Depreciation charge	(1,848)	(17,192)	(7,215)		(26,255)
Closing net book amount	33,155	42,321	12,239	761	88,476
At 31 December 2010					
Cost	48,969	162,944	75,147	761	287,821
Accumulated depreciation	(15,814)	(120,623)	(62,908)	-	(199,345)
Net book amount	33,155	42,321	12,239	761	88,476

As at 31 December 2010 certain property plant and equipment with a carrying value of LTL 58,051 thousand (31 December 2009: LTL 26,423 thousand) have been pledged as security for bank borrowings.

Depreciation expenses of property plant and equipment are included in selling and marketing expenses general and administrative expenses and cost of sales in the statement of comprehensive income and in work in progress and finished goods in the balance sheet.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

16. Intangible assets

Company	Computer software
At 1 January 2009	
Cost	1,941
Accumulated amortisation	(1,623)
Net book amount	<u>318</u>
Year ended 31 December 2009	
Opening net book amount	318
Additions	102
Amortisation charge	(20)
Closing net book amount	<u>400</u>
At 31 December 2009	
Cost	2,043
Accumulated amortisation	(1,643)
Net book amount	<u>400</u>
Year ended 31 December 2010	
Opening net book amount	400
Additions	239
Amortisation charge	(75)
Closing net book amount	<u>564</u>
At 31 December 2010	
Cost	2,282
Accumulated amortisation	(1,718)
Net book amount	<u>564</u>

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

Group	Contractual client relationship	Computer software	Total
At 1 January 2009			
Cost	6,787	1,942	8,729
Accumulated amortisation	(4,677)	(1,632)	(6,309)
Net book amount	<u>2,110</u>	<u>310</u>	<u>2,420</u>
Year ended 31 December 2009			
Opening net book amount	2110	310	2420
Additions		113	113
Amortisation charge	(2,110)	(33)	(2,143)
Closing net book amount	<u>-</u>	<u>390</u>	<u>390</u>
At 31 December 2009			
Cost	6,787	2,323	9,110
Accumulated amortisation	(6,787)	(1,933)	(8,720)
Net book amount	<u>-</u>	<u>390</u>	<u>390</u>
Year ended 31 December 2010			
Opening net book amount		390	390
Additions		239	239
Amortisation charge		(137)	(137)
Closing net book amount	<u>-</u>	<u>492</u>	<u>492</u>
At 31 December 2010			
Cost		2,562	2,562
Accumulated amortisation		(2,070)	(2,070)
Net book amount	<u>-</u>	<u>492</u>	<u>492</u>

Amortisation expenses of computer software and other intangible assets are included in general and administrative expenses in the statement of comprehensive income.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

17. Investments

The Company's investments into subsidiaries and joint venture are accounted for at cost less impairment in the stand-alone financial statements.

At 1 January 2009	29,773
Subsidiaries acquired	-
Impairment charge	(1,469)
At 31 December 2009	28,304
Subsidiaries acquired	353
Impairment charge	(1,000)
Disposal of subsidiary	(170)
At 31 December 2010	27,487

Provision for impairment of subsidiaries established during 2010 amounted to LTL 1,000 thousand using value in use method with WACC 7,7%.

In 2010 Rokiskio Suris Group acquired 60 per cent of shares of Kaunata SIA (Note 1).

In 2009 impairment was calculated on investment into: Skeberdis ir Partneriai UAB and Pečupė UAB. These companies were reorganised and terminated their activities. In 2010 the company Batėnai UAB was sold (loss on disposal LTL 144 thousand) and Skirpstas UAB is subject to liquidation.

The total results, assets and liabilities of joint venture UAB Pieno Upes in which the Group holds 50% interests were as follows (in thousand): total assets were LTL 2,267 (2009: LTL 1,772); total liabilities LTL 1,011 (2009: LTL 757); revenues LTL 12,236 (2009: LTL 8,539); and net profit LTL 331 (2009: LTL 186).

18. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Group			Company	
2010	2009		2010	2009
		Deferred income tax assets:		
479	314	- to be recovered after more than 12 months	479	314
818	60	- to be recovered within 12 months	818	60
<u>1,297</u>	<u>374</u>		<u>1,297</u>	<u>374</u>
		Deferred income tax liabilities:		
(257)	(257)	- to be recovered after more than 12 months	-	-
(139)	(128)	- to be recovered within 12 months	-	-
<u>(396)</u>	<u>(385)</u>		<u>-</u>	<u>-</u>
<u>901</u>	<u>(11)</u>	Net deferred income tax assets	<u>1,297</u>	<u>374</u>

The gross movement in deferred income tax assets was as follows:

Group			Company	
2010	2009		2010	2009
(11)	4,272	At beginning of the year	374	4,785
912	(4,283)	Recognised in profit and loss (Note 13)	923	(4,411)
<u>901</u>	<u>(11)</u>	At end of the year	<u>1,297</u>	<u>374</u>

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

The movement in deferred income tax assets and liabilities during the period without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Company					
Deferred income tax assets	Inventory net realisable value adjustment	Amortised cost of loans granted	Tax losses carried forward	Bonuses and vacation reserve	Total
At 1 January 2009	572	314	3,899	-	4,785
Recognised in the statement of comprehensive income	(512)	-	(3,899)	-	(4,411)
At 31 December 2009	60	314	-	-	374
Recognised in the statement of comprehensive income	(60)	165	-	818	923
At 31 December 2010	-	479	-	818	1,297

Group					
Deferred income tax assets	Inventory net realisable value adjustment	Amortised cost of loans granted	Tax losses carried forward	Bonuses and vacation reserve	Total
At 1 January 2009	572	314	3,899	-	4,785
Recognised in the statement of comprehensive income	(512)	-	(3,899)	-	(4,411)
At 31 December 2009	60	314	-	-	374
Recognised in the statement of comprehensive income	(60)	165	-	818	923
At 31 December 2010	-	479	-	818	1,297

Deferred income tax liabilities	Accelerate d tax depreciati on	Total
At 1 January 2009	(513)	(513)
Recognised in the statement of comprehensive income	128	128
At 31 December 2009	(385)	(385)
Recognised in the statement of comprehensive income	(11)	(11)
At 31 December 2010	(396)	(396)

Deferred income tax assets and deferred income tax liabilities were calculated using a tax rate of 15% (2009: 20%) enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

19. Loans granted

Group			Company	
2010	2009		2010	2009
8,143	4,769	Long-term loans to farmers	8,143	4,769
404	250	Long-term loans to employees	404	250
7,515	14,483	Other long-term loans	6,023	14,483
(3,003)	(1,897)	Less: provision for impairment of loans receivable	(3,003)	(1,897)
13,059	17,605	Long-term loans net	11,567	17,605
3,762	3,622	Current portion of loans to farmers	3,730	3,622
329	525	Current portion of loans to employees	105	128
31,950	15,589	Other short-term loans granted	27,393	14,235
(709)	(359)	Less: provision for impairment of loans receivable	(709)	(359)
35,332	19,377	Current portion of long-term loans and short-term loans	30,519	17,626

Loans to farmers were granted with repayment terms ranging from 2 months to 10 years. The annual interest rate ranges from 0 to 10 per cent. Effective interest rate (weighted yearly interests) was 10,92 per cent (2009: 8.7 per cent).

Long-term loans to employees were granted with repayment terms ranging from 1 to 25 years. The loans are interest free. Effective interest rate was 12.97 per cent (2009: 12.99 per cent).

Other long-term loans were granted with repayment terms ranging from 1 to 5 years. Weighted average interest rate payable on loans is 4.27 per cent. These loans arose upon the purchase of the Company's and the Group's production by customers.

Trade receivables were classified as Loans granted due to the reason that interests are accounted by the Company. Reclassified amount as at 2010.12.31 LTL 13,438 thousand (2009: LTL 10,687 thousand).

Current portion of long-term receivables and other amounts receivable include a certain amount of loans and other receivables from related parties (Note 33).

As at 31 December 2010 fair value of loans granted to employees amounted to LTL 360 thousand (2009: LTL 302 thousand). As at 31 December 2010 fair value of loans granted to farmers amounted to LTL 10,718 thousand (2009: LTL 5,178 thousand).

The information of loans receivable past due as at 31 December is provided in the table below:

Group			Company	
2010	2009		2010	2009
46,226	33,999	Loans granted not past due	39,921	32,248
1,955	2,783	Loans granted past due but not impaired	1,955	2,783
3,922	2,456	Impaired loans granted	3,922	2,456
52,103	39,238	Gross value of loans granted	45,798	37,487
(3,712)	(2,256)	Impairment of amounts uncollectible	(3,712)	(2,256)
48,391	36,982	Net amount	42,086	35,231

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

20. Inventories

Group			Company	
2010	2009		2010	2009
7,074	6,116	Raw materials	3,343	2,200
13,915	7,048	Work in progress	13,458	6,895
38,748	14,991	Finished products	36,512	13,321
2,849	2,467	Other inventories	2,245	2,462
62,586	30,622	Total inventories at cost	55,558	24,878
-	(400)	Less: inventory write-down to net realizable value	-	(400)
62,586	30,222	Total inventories	55,558	24,478

As at 31 December 2010 inventories with cost of LTL 25,000 thousand (31 December 2009: LTL 50,000 thousand) have been pledged as security for bank borrowings.

As at 31 December 2010 the Company did not hold any inventories with third parties.

21. Trade and other receivables

Group			Company	
2010	2009		2010	2009
		Non-current receivables		
3,229	-	Other receivables	3,229	-
		Current receivables		
83,872	62,226	Trade receivables	86,000	53,182
3,601	3,666	VAT receivable	2,456	1,255
-	727	Export subsidies receivable	-	727
2,608	713	Advance payments and deferred expenses	1,750	702
90,081	67,332		90,206	55,866

2010 m. gruodžio 31 d. LTL 3,229 thousand are accounted as long term deposits in bank AS UniCredit Bank, Latvia. Term of deposits: more than 12 months and ends in 2012 – 2016 with 6% annual interests.

As at 31 December 2010 trade accounts receivable in the amount of LTL 29,572 thousand (31 December 2009: LTL 17,040 thousand) have been pledged as security for bank borrowings.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

The information on receivables past due as at 31 December is provided in the table below:

Group			Company	
2010	2009		2010	2009
74,625	54,002	Trade receivable neither past due nor impaired	77,822	45,393
9,247	8,224	Trade receivable past due but not impaired	8,178	7,789
5,331	5,241	Impairment of amounts uncollectible	5,331	5,241
89,203	67,467	Gross value	91,331	58,423
(5,331)	(5,241)	Impairment charge	(5,331)	(5,241)
83,872	62,226	Net value of loans granted	86,000	53,182

The Group received no collaterals for impaired amounts receivable.

The Company has receivable from subsidiary Rokiskio Pienas UAB amounted to LTL 22 970 thousand, which is not impaired and overdue.

Trade receivables that are less than 360 days past due are not considered impaired if the Group does not possess other negative information about the solvency status of customers. The ageing analysis of trade receivables past due but not impaired as at 31 December is as follows:

Group			Company	
2010	2009		2010	2009
8,864	7,625	Up to 30 days	7,827	7,204
280	497	31 to 60 days	270	496
76	3	61 to 180 days	75	-
27	99	More than 181 days	6	89
9,247	8,224		8,178	7,789

22. Cash and cash equivalents

Group			Company	
At 31 December			At 31 December	
2010	2009		2010	2009
16,749	96,754	Short-term deposits	16,699	96,699
2,775	4,433	Cash at bank and in hand	1,203	4,098
19,524	101,187		17,902	100,797

As at 31 December 2010 and 2009 cash in bank accounts and future cash inflows into these accounts have been pledged as security for bank borrowings. As at 31 December 2010 the cash balances in the pledged accounts amounted to LTL 7,163 thousand (31 December 2009: LTL 95,479 thousand).

For the purposes of cash flow statement cash and cash equivalents comprise as follows:

Group			Company	
At 31 December			At 31 December	
2010	2009		2010	2009
16,749	96,755	Short-term deposits	16,699	96,699
2,776	4,433	Cash at bank and in hand	1,203	4,098
(14,926)	(19,606)	Bank overdrafts (Note 26)	(14,926)	(19,606)
4,599	81,582		2,976	81,191

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

23. Share capital

As at 31 December 2010 the share capital was divided into 38,444,894 (31 December 2009: LTL 38,444,894) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid.

24. Treasury shares

	2010		2009	
	Number	Amount	Number	Amount
At beginning of the year	-	-	2,755,036	15,492
Treasury shares acquired	2,576,924	(11,478)	1,516,600	3,337
Reduction of share capital	-	-	(4,271,636)	(18,829)
	2,576,924	(11,478)	-	-

On 31 August 2009 a decision was passed at the general shareholder meeting to reduce the authorised share capital of Rokiškio Sūris AB by LTL 4,271,636 (four million two hundred seventy-one thousand six hundred and thirty six litas) through cancellation of 4,271,636 (four million two hundred seventy-one thousand six hundred and thirty six) ordinary registered shares with par value of LTL 1 (one) each.

Following the cancellation of treasury shares redeemed the authorised share capital of Rokiškio Sūris AB amounts to LTL 38,444,894 (thirty-eight million four hundred forty-four thousand eight hundred and ninety-four litas) divided into 38,444,894 (thirty-eight million four hundred forty-four thousand eight hundred and ninety-four) ordinary registered shares with par value of LTL 1 (one) each.

The decrease in the share capital of Rokiškio Sūris AB was registered with the Register of Legal Entities on 18 December 2009.

25. Other reserves and reserve for acquisition of treasury shares

Other reserves

Non-distributable reserves of LTL 3,593 thousand can only be used for the share capital increase and non-distributable reserves of LTL 3,840 thousand (legal reserve) can only be used for offsetting future operating losses if any.

The dividends declared in respect of 2009 and paid in 2010 amounted to LTL 3,844 thousand, which is LTL 0.10 per share (except for treasury shares) (when each share has par value of LTL 1).

Reserve for acquisition of treasury shares

During the ordinary general meeting of shareholders of Rokiškio Sūris AB held on 30 April 2010 a decision was passed *Regarding the Formation of the Reserve for the Acquisition of Treasury Shares*.

The reserve formed for the acquisition of treasury shares amounted to LTL 15,000 thousand. The total amount of the reserve for the acquisition of treasury shares including the previously formed reserve for the acquisition of treasury shares is LTL 29,188 thousand.

The same shareholder's meeting decided to allocate LTL 359 thousands to other reserves (legal reserve).

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

26. Borrowings

Group			Company	
2010	2009		2010	2009
		Current		
43,997	79,792	Current bank borrowings	43,997	79,792
14,926	19,606	Bank overdrafts	14,926	19,606
50	65	Finance lease liabilities	50	64
<u>58,973</u>	<u>99,463</u>		<u>58,973</u>	<u>99,462</u>
		Non-current		
103	137	Non-current bank borrowings	-	-
<u>59,076</u>	<u>99,600</u>	Total borrowings	<u>58,973</u>	<u>99,462</u>

The bank borrowings are secured over certain property plant and equipment (Note 15), inventories (Note 20), trade receivables (Note 21), cash in certain bank accounts (Note 22).

Weighted average interest rates effective as at 31 December (per cent) were as follows:

Group			Company	
2010	2009		2010	2009
2.56	1.67	Current bank borrowings	2.52	1.67
2.38	3.71	Bank overdrafts	2.38	3.71

The carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

Group			Company	
2010	2009		2010	2009
44,047	99,463	EUR	44,047	99,462
14,926	-	LTL	14,926	-
<u>58,973</u>	<u>99,463</u>		<u>58,973</u>	<u>99,462</u>

Fair value of borrowings approximates their carrying values due to fact that interest rate on the borrowings received is subject to repricing on a daily monthly or quarterly basis.

As at 31 December 2010 according to the agreement concluded with banks the unwithdrawn amounts of credit lines and overdrafts of the Company and the Group were LTL 56,798 thousand and 57,818 thousand respectively (2009: LTL 20,093 thousand and LTL 21,113 thousand respectively).

The group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

27. Deferred income

Group			Company	
2010	2009		2010	2009
10,279	11,288	Government grants at beginning of year	7,789	8,881
842	2,080	New grants received	362	1,563
(3,326)	(3,089)	Amortisation of deferred income to match related depreciation	(2,821)	(2,655)
7,795	10,279		5,330	7,789
(4,989)	(7,296)	Less: non-current portion	(3,031)	(5,241)
2,806	2,983	Current portion	2,299	2,548

Deferred capital grants are related to acquisition of property plant and equipment and are donated by the European Union funds and Lithuanian Government under the SAPARD and other programmes. The Company has no obligation to repay or otherwise refund the capital grants received unless it breaches the contractual provisions contained in the agreements concluded with the grantors.

28. Trade and other payables

Group			Company	
2010	2009		2010	2009
42,498	41,780	Trade payables	45,887	37,953
3,817	1,787	Salaries social security and taxes	2,352	678
2,014	2,509	Other payables	612	1,485
6,611	4,158	Bonuses and vacation reserve	6,611	4,158
54,940	50,234		55,462	44,274

The Company has payable to subsidiary Rokiskio Pienas UAB amounted to LTL 8,686 thousand.

29. Provisions

In March of 2008 the Competition Council following its operational research of the Company and other companies operating in the milk sector imposed a fine of LTL 824 thousand on the Company. In respect to this fine the Company's management established a 100 per cent provision. For the purpose of the statement of comprehensive income for the year ended 31 December 2008 the above-mention amount was stated under administrative expenses.

This case was renewed in March, 2011. Disclosed in Note 34.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

30. Contingent liabilities and commitments

Contingent liabilities

Group			Company	
2010	2009		2010	2009
4,799	876	Guarantees issued by the bank to third parties on behalf of the Group	4,799	876
-	768	Guarantees issued by the Group on behalf of farmers and agricultural companies	-	768
<u>4,799</u>	<u>1,644</u>		<u>4,799</u>	<u>1,644</u>

The Group has given these guarantees in the ordinary course of business and anticipates that no material liabilities will arise.

Capital expenditure commitments

Capital expenditure contracted for property plant and equipment at the balance sheet date but not recognised in the financial statements was LTL 2,437 thousand (31 December 2009: LTL 664 thousand).

Operating lease commitments – where the Group is the lessee

The Group leases passenger cars and premises under operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group			Company	
2010	2009		2010	2009
250	280	Not later than 1 year	250	280
	250	Later than 1 year but not later than 5 years		250
<u>250</u>	<u>530</u>		<u>250</u>	<u>530</u>

31. Available-for-sale financial assets

As at 31 December 2010 available-for-sale debt securities of the Company and the Group represented bonds issued by the Lithuanian Government (fair value as at 2010.12.31 LTL 6,886 thousand) (31 December 2009: none). Fair value was estimated by reference to quoted prices in active markets for identical assets.

Initial yields and maturities of debt securities are as follows:

	2010		2009	
	Yield	Maturity	Yield	Maturity
Securities of the Lithuanian Government	4.50%-5.25%	22 September 2017	-	-

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

32. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

Group			Company	
At 31 December			At 31 December	
2010	2009		2010	2009
28,646	20,094	Net profit (loss) before income tax	28,954	13,083
		Adjustments for:		
26,255	27,750	– depreciation (Note 15)	21,002	23,104
137	2,143	– amortisation and impairment charge (Note 16)	75	20
		– write-off of property plant and equipment and intangible assets (Notes 15 and 16)	30	71
30	119			
51	7	– loss on disposal of property plant and equipment (Note 10)	20	7
		– interest expense (Note 12)	1,016	2,261
1,016	2,264			
(3,930)	(1,233)	– interest income (Note 8)	(3,581)	(1,233)
		– write-offs of inventories	-	400
-	400			
170	1,000	– impairment of investments into subsidiaries (Note 17)	1,144	1,469
		– impairment of doubtful receivables and write-offs of bad receivables (Note 21)	90	5,650
1,613	5,650			
		– Impairment and write-offs of loans granted to farmers (Note 19)	1,455	-
1,455	-			
(5,450)	(3,000)	– accrual for vacation reserve and bonus	(5,450)	(3,000)
(3,326)	(3,089)	– amortisation of government grants received (Note 27)	(2,821)	(2,655)
		Changes in working capital:		
(23,918)	11,765	– amounts receivable and prepayments	(37,016)	19,035
(32,363)	56,602	– inventories	(31,081)	55,275
11,692	7,596	– amounts payable	16,908	10,751
<u>2,077</u>	<u>128,068</u>	Net cash generated from operations	<u>(9,256)</u>	<u>124,238</u>

In the statement of cash flows proceeds from disposal of property plant and equipment comprise:

2010	2009		2010	2009
340	850	Net book amount (Note 15)	289	549
(51)	(7)	Loss on disposal of property plant and equipment (Note 10)	(20)	(7)
<u>289</u>	<u>843</u>	Proceeds from sale of property plant and equipment	<u>269</u>	<u>542</u>

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

33. Related-party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company's Director) which together own 51.76 per cent (2009: 54.28 per cent) of the Company's share capital and 55.48 per cent (2009: 54.28 per cent) of voting rights (treasury shares acquired do not have voting rights). Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 48.24 per cent of the Company's share capital are widely held. Among the remaining shareholders are the related parties such as management of the Company or the Group and their close family members. All of them together hold 57.31 per cent (2009: 59.78 per cent) of the Company's share capital and 61.43 per cent (2009: 59.78 per cent) of voting rights.

Pieno Pramonės Investicijų Valdymas UAB the members of the Board and Senior Management and their close family members are treated as related parties.

Certain cooperative societies engaged in the production of milk are treated as related parties of the Company through close family relationships with members of the Senior Management and because certain of the Company's employees have significant influence over day-to-day activities of these societies.

Group		Company	
At 31 December		At 31 December	
2010	2009	2010	2009

(i) *The following transactions were carried out with related parties:*

22,688	21,832	Purchase of raw milk from other related parties	78,106	53,258
-	-	Purchase of non-current assets	38	97
-	-	Purchase of inventory	42,543	2,810
3,707	4,018	Purchases of services	10,901	22,018
-	2,965	Purchase of consulting services	284	615
1,318	732	Sales of transportation services to other related parties	20,845	20,928
869	728	Sales of production and other inventories	162,163	131,724
-	-	Sale of non-current assets	73	-
320	406	Interest charges on credit facility	320	406

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

(ii) Year-end balances arising from transactions with related parties:

2010	2009		2010	2009
191	201	Non-interest bearing loans granted to Senior Management (and their families)	191	201
10,856	16,898	Credit facility granted to Pieno Pramonės Investicijų Valdymas UAB	10,856	16,898
-	-	Loan granted to Jekabpils Piena Kombinats SIA	1,501	199
1,422	3,763	Trade payables to other related parties	13,803	7,817
-	486	Trade receivables from other related parties	22,970	9,938

(iii) Compensation of key management

2010	2009		2010	2009
674	405	Salaries	674	405
4,920	3,000	Bonuses	4,920	3,000
192	125	Social security contributions	192	125
<u>866</u>	<u>530</u>		<u>866</u>	<u>530</u>

Key management includes 9 (2009: 9) members of the Board and Senior Management.

34. Events after the end of the reporting period

On 23 December 2010 a decision was passed at the general shareholder meeting to reduce the authorised share capital of Rokiškio Sūris AB by LTL 2,576,924 (two million five hundred seventy-six thousand nine hundred and twenty four litas) through cancellation of 2,576,924 (two million five hundred seventy-six thousand nine hundred and twenty four) ordinary registered shares with par value of LTL 1 (one) each.

These shares were redeemed during the course of the 2010 financial year at the official bidding submarket operating through NASDAQ OMX Vilnius stock exchange.

During the above mentioned shareholder meeting a decision was passed to amend Articles of Association of Rokiškio Sūris AB due to the decrease in the share capital of the Company through the cancellation of treasury shares redeemed.

Following the cancellation of treasury shares redeemed the authorised share capital of Rokiškio Sūris AB amounts to LTL 35,867,970 (thirty-five million eight hundred sixty-seven thousand nine hundred and seventy litas) divided into 35,867,970 (thirty-five million eight hundred sixty-seven thousand nine hundred and seventy) ordinary registered shares with par value of LTL 1 (one) each. The number of shares held by the Company's shareholders and their nominal value did not change because of the reduction of the Company's share capital.

A new version of the Company's Article of Association stipulating a decreased share capital of the Company was registered with the Register of Legal Entities on 8 March 2011. Following the registration with the Register of Legal Entities the authorised share capital of Rokiškio Sūris AB amounts to LTL 35,867,970 (thirty-five million eight hundred sixty-seven thousand nine hundred and seventy litas) divided into 35,867,970 (thirty-five million eight hundred sixty-seven thousand nine hundred and seventy) ordinary registered shares with par value of LTL 1 (one) each.

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR 2010

(All tabular amounts are in LTL '000 unless otherwise stated)

On 1 March 2011, Rokiškio Sūris AB received a letter No. (2.19-23)6V from the Lithuanian Competition Council *Regarding the Notice on the Investigation Performed*. The conclusion of the investigation reads as follows: "According to points 1 and 3 of paragraph 1 of Article 40, paragraph 1 of Article 41 and Article 47 of the Lithuanian Law on Competition, we propose that a penalty is imposed on Rokiškio Sūris AB for the violation of paragraph 1 of Article 5 of the Law on Competition and that the company is put under obligation to cease the violation if it still persists." Rokiškio Sūris AB will launch an appeal. The outcome of appeal is not certain at the moment.