

ROKIŠKIO SŪRIS AB
CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS,
CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2011

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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 Rokiškio sūris AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Rokiškio sūris AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5–47 which comprise the stand alone and consolidated balance sheet as of 31 December 2011 and the stand alone and consolidated statements of income, 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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PricewaterhouseCoopers UAB, company code 111473315, VAT payer's code LT114733113, registered office at J. Jasinskio 16B, LT-01112 Vilnius, is a private company registered with the Legal Entities' Register of the Republic of Lithuania. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.



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 2011, 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 2011 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 2011.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in blue ink, appearing to be 'Rimvydas Jogėla', is written over a large, light blue circular scribble.

Rimvydas Jogėla
Partner

Auditor's Certificate No.000457
Authorised to act for and on behalf of
PricewaterhouseCoopers, UAB based on the
Power of Attorney dated 16 June 2010

Vilnius, Republic of Lithuania
5 April 2012

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

Income statement

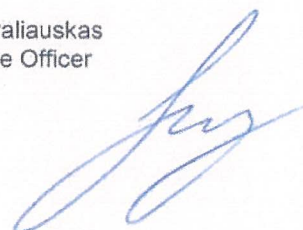
Group				Company	
2011	2010		Notes	2011	2010
688,025	553,760	Revenue	5	689,336	533,555
(590,354)	(475,670)	Cost of sales		(612,707)	(472,573)
97,671	78,090	Gross profit		76,629	60,982
(34,794)	(31,173)	Selling and marketing expenses	6	(25,377)	(18,230)
(32,913)	(22,503)	General and administrative expenses	7	(28,675)	(17,354)
23,036	12,208	Other income	8	21,957	11,555
(18,001)	(6,908)	Other expenses	9	(18,007)	(6,962)
142	(51)	Other (losses)/gains	10	130	(20)
35,141	29,663	Operating profit		26,657	29,971
(1,904)	(1,017)	Finance costs	12	(1,509)	(1,017)
33,237	28,646	Profit before income tax		25,148	28,954
(5,584)	(4,085)	Income tax	13	(5,264)	(4,076)
27,653	24,561	Profit for the year		19,884	24,878
Profit for the year attributable to:					
27,569	24,625	Owners of the Company			
84	(64)	Non-controlling interest			
27,653	24,561				
14					
0.78	0.65	Basic and diluted earnings per share (in LTL per share)		0.56	0.66

The notes on pages 11 to 47 are an integral part of these financial statements.
The financial statements on pages 5 to 47 have been approved for issue by the Board of Directors on 5 April 2012 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
Director



Antanas Kavaliauskas
Chief Finance Officer



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Statement of comprehensive income

Group				Company	
2011	2010		Notes	2011	2010
27,653	24,561	Profit for the year		19,884	24,878
		Other comprehensive income			
88,430	-	- Gain on revaluation of property, plant and equipment	15	72,972	-
(13,265)	-	- Deferred income tax on revaluation	18	(10,946)	-
75,165	-	Other comprehensive income for the year		62,026	-
102,818	24,561	Total comprehensive income for the year		81,910	24,878
		Total comprehensive income for the year attributable:			
102,734	24,625	Owners of the Company			
84	(64)	Non-controlling interest			
102,818	24,561				

The notes on pages 10 to 47 are an integral part of these financial statements.

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Balance sheet

Group			Company	
At 31 December			At 31 December	
2011	2010	Note	2011	2010
ASSETS				
Non-current assets				
169,310	88,476	15	127,645	62,529
1,330	492	16	424	564
551	546	17	28,341	27,487
1,094	1,297	18	1,094	1,297
6,690	6,886	31	6,690	6,886
8,968	13,059	19	10,683	11,567
-	3,229	21	-	3,229
187,943	113,985		174,877	113,559
Current assets				
94,968	62,586	20	87,341	55,559
53,490	35,332	19	50,436	30,519
98,965	90,081	21	90,466	90,206
1,915	1,152		1,348	645
10,576	19,524	22	8,294	17,902
259,914	208,675		237,885	194,831
447,857	322,660		412,762	308,390
Total assets				
EQUITY				
Attributable to owners of the Company				
35,868	38,445	23	35,868	38,445
41,473	41,473		41,473	41,473
40,287	29,188	25	40,287	29,188
(3,868)	(11,478)	24	(3,868)	(11,478)
82,598	7,433	25	69,459	7,433
93,004	89,123		74,045	77,748
289,362	194,184		257,264	182,809
-	450			
289,362	194,634		257,264	182,809
Minority interest				
Total equity				
LIABILITIES				
Non-current liabilities				
-	103	26	-	-
13,425	396	18	10,946	-
4,683	4,989	27	2,030	3,031
18,108	5,488		12,976	3,031
Current liabilities				
6,030	4,995		5,592	4,992
71,707	58,973	26	71,707	58,973
3,258	2,806	27	2,632	2,299
58,568	54,940	28	61,767	55,462
824	824	29	824	824
140,387	122,538		142,522	122,550
158,495	128,026		155,498	125,581
447,857	322,660		412,762	308,390
Total liabilities				
Total equity and liabilities				

The notes on pages 10 to 47 are an integral part of these financial statements.

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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 2010		38,445	41,473	14,188	-	7,074	72,073	173,253
Comprehensive income for the year		-	-	-	-	-	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 legal and other 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
Comprehensive income								
Profit (loss) for the year		-	-	-	-	-	19,884	19,884
Other comprehensive income		-	-	-	-	62,026	-	62,026
Total comprehensive income for 2011		-	-	-	-	62,026	19,884	81,910
Transactions with owners								
Acquisition of treasury shares	24	-	-	-	(3,868)	-	-	(3,868)
Cancelation of treasury shares	25	(2,577)	-	(8,901)	11,478	-	-	-
Transfer to reserves		-	-	20,000	-	-	(20,000)	-
Dividends relating to 2010	25	-	-	-	-	-	(3,587)	(3,587)
Total transactions with owners for 2011		(2,577)	-	(28,901)	7,610	-	(23,587)	(7,455)
Balance at 31 December 2011		35,868	41,473	40,287	(3,868)	69,459	74,045	257,264

The notes on pages 10 to 47 are an integral part of these financial statements.

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(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 interest	Total
Balance at 1 January 2010	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 legal and other 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
Comprehensive income									
Profit (loss) for the year		-	-	-	-	27,569	27,569	84	27,653
Other comprehensive income		-	-	-	75,165	-	75,165	-	75,165
Total comprehensive income for 2011		-	-	-	75,165	27,569	102,734	84	102,818
Transactions with owners									
Acquisition of treasury shares	24	-	-	(3,868)	-	-	(3,868)	-	(3,868)
Cancelation of treasury shares	25	(2,577)	(8,901)	11,478	-	-	-	-	-
Transfer to reserves		-	20,000	-	-	(20,000)	-	-	-
Dividends relating to 2010	25	-	-	-	-	(3,688)	(3,688)	-	(3,688)
Acquisition of non-controlling interest in subsidiaries		-	-	-	-	-	-	(534)	(534)
Total transactions with owners for 2011		(2,577)	(28,901)	7,610	-	(23,688)	(7,556)	(534)	(8,090)
Balance at 31 December 2011	35,868	41,473	40,287	(3,868)	82,598	93,004	289,362	-	289,362

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Statement of cash flows

<u>Group</u>			<u>Company</u>	
<u>Year ended 31 December</u>			<u>Year ended 31 December</u>	
<u>2011</u>	<u>2010</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities				
14,702	2,077		13,038	(9,256)
(1,903)	(1,016)		(1,509)	(1,016)
(2,139)	(993)		-	(82)
<u>10,660</u>	<u>68</u>		<u>11,529</u>	<u>(10,354)</u>
Cash flows from investing activities				
(16,674)	(6,524)	15	(11,024)	(4,264)
(977)	(239)		(72)	(239)
	(10,644)		(1,438)	(10,468)
(15,292)	(9,469)		(15,292)	(9,469)
(19,199)	(16,292)		(19,199)	(8,135)
628	289	32	607	269
3,405	842	27	1,965	362
8,295	7,505		8,295	6,870
12,433	4,760		7,429	4,762
2,648	3,930		2,316	3,581
<u>(24,733)</u>	<u>(25,842)</u>		<u>(26,413)</u>	<u>(16,731)</u>
Cash flows from financing activities				
(3,688)	(3,844)	25	(3,587)	(3,844)
(3,868)	(11,478)	24	(3,868)	(11,478)
971,485	495,538		971,455	495,457
(955,993)	(531,425)		(955,912)	(531,265)
<u>7,936</u>	<u>(51,209)</u>		<u>8,088</u>	<u>(51,130)</u>
(6,137)	(76,983)		(6,796)	(78,215)
4,599	81,582	22	2,976	81,191
<u>(1,538)</u>	<u>4,599</u>	22	<u>(3,820)</u>	<u>2,976</u>

The notes on pages 10 to 47 are an integral part of these financial statements.

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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") (2010: 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	
	2011	2010		2011	2010
Branches			Subsidiaries		
Utenos Pienas	Yes	Yes	Rokiškio Pienas UAB	100.00	100.00
Ukmergės Pieninė	Yes	Yes	Skirpstas UAB	-	100.00
			Žalmargė KB	100.00	100.00
			Jekabpils Piena Kombinats SIA	100.00	50.05
			<i>Kaunata SIA</i> *	60.00	60.00
			Joint venture		
			Pieno Upės UAB	50.00	50.00

* These subsidiaries were not consolidated in the Group's financial statements as they were immaterial.

On 31 March 2011, Skirpstas UAB was put into liquidation. On 31 May 2011, the Company acquired 49.95% of authorised share capital of raw milk collection company Jekabpils Piena Kombinats SIA (Note 17).

All the above-listed subsidiaries, joint venture and branches were registered in Lithuania, except for Jekabpils Piena Kombinats SIA and Kaunata SIA which were registered in Latvia.

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 2011 was 1,043 people (2010: 1,026 people). The average number of the Group's employees during the year ended 31 December 2011 was 1,599 people (2010: 1,607 people).

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 and valuation of property, plant and equipment at revalued amount.

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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) Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2011:

- **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 had no material impact on the Company's/Group's financial statements.

(b) Standards, amendments and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2011 but are not relevant to the Company's and the Group's operations:

- **IAS 24, 'Related party disclosures'** (amended in November 2009; effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. This amendment has no impact on the Group's and the Company's financial statements.
- **Classification of rights issues – amendment to IAS 32 Financial instruments: presentation.**
- **Prepayments of a minimum funding requirement – amendment to IFRIC 14.**
- **IFRIC 19, Extinguishing financial liabilities with equity instruments.**
- **Limited exemption from comparative IFRS 7 disclosures for first-time adopters - amendment to IFRS 1.**

(c) New standards, amendments and interpretations to existing standards issued but not yet effective and not 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 Company/Group does not expect the standard to have a significant impact on the financial statements.
- **IFRS 10 'Consolidated financial statements'** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 'Consolidation - special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Company/Group does not expect the standard to have a significant impact on the financial statements.

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- **IFRS 11 'Joint arrangements'** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **IFRS 12 'Disclosure of interest in other entities'** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments In associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. Currently, the Company/Group assesses the impact of this standard on their financial statements.
- **IFRS 13 'Fair value measurement'** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **IAS 19, 'Employee benefits'** (revised in 2011, effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **IAS 27, 'Separate financial statements'** (revised in 2011, effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). Currently, the Company/Group assesses the impact of this standard on their financial statements.
- **IAS 28, 'Investments in associates and joint ventures'** (revised in 2011, effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). Currently, the Company/Group assesses the impact of this standard on their 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). This amendment is not expected to have a significant impact on the Company's/Group's financial statements.

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- **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). This amendment is not expected to have a significant impact on the Company's/Group's 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 have no impact on the Group's and the Company's financial statements.
- **Presentation of components of other comprehensive income - amendments to IAS 1, Presentation of financial statements** (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). This standard is not expected to have a significant impact on the Company's/Group's financial statements.
- **Offsetting financial assets and financial liabilities - amendments to IAS 32 Financial instruments: presentation** (effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). This standard is not expected to have a significant impact on the Company's/Group'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 acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree 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 identifiable assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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.

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(b) Transactions with non-controlling interest

The group treats transactions with non-controlling interest 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.

(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 income statement.

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2.5 Property, plant and equipment

Property, plant and equipment is shown at revalued amount, based on periodic valuations of assets, less subsequent accumulated depreciation and impairment.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases in the carrying amount on subsequent revaluations that offset previous increases of the carrying amount of the same asset are charged in other comprehensive income and debited against revaluation reserve in equity; all other decreases are charged to the income statement. Increases in the carrying amount on subsequent revaluations that offset previous decreases of the carrying amount are recognised in the income statement; all other increases in the carrying amount on revaluation of property, plant and equipment are recognised in other comprehensive income and added to revaluation reserve in shareholders' equity. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings net of deferred income tax.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets only when it is probable that future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement 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.

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.

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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 income statement.

2.9 Inventories

Inventories are 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.

2.10 Loans granted, trade and other receivables

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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 income statement 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 income statement 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.

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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 income statement 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 (2010: 15 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. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. 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.

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(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 income statement 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.

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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.

2.25 Change in accounting policy

In 2011, the Company and the Group introduced changes in the accounting policy for property, plant and equipment. Before 31 December 2011, the Company and the Group used to account for property, plant and equipment at acquisition cost less accumulated depreciation and impairment. With effect from 31 December 2011, the Company's and Group's property, plant and equipment has been revaluated and accounted for at revalued amount less accumulated depreciation and impairment. This change in accounting policy was not recognised retrospectively because it was impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods.

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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 2011 and 2010, loans granted by the Group at a fixed interest rate were denominated in the litas. In 2011 and 2010, borrowings issued to the Group at a variable interest rate were denominated in the litas and the euros.

As at 31 December 2011, the Company's and the Group's net liabilities sensitive to interest rate risk amounted to LTL 53,122 thousand and LTL 53,122 thousand, respectively (31 December 2010: LTL 21 227 thousand and LTL 15 170 thousand, respectively). If interest rate increases / decreases by 0.5 percentage point (2010: 0.5 percentage point), the Company's and the Group's profit would decrease / increase by LTL 266 thousand and LTL 266 thousand, respectively (2010: profit would decrease / increase by LTL 106 thousand and 76 thousand, respectively).

(b) Credit risk

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

As at 31 December 2011, all Company's and Group's cash balances were held in banks that had external credit ratings from 'A' to 'A+', as set by the rating agency *Fitch Ratings* (31 December 2010: from 'A' to 'B+').

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	
2011	2010		2011	2010
10,576	19,524	Cash and cash equivalents at banks	8,294	17,902
93,519	83,872	Trade receivables	85,793	86,000
62,458	48,391	Loans granted	61,119	42,086
-	3,229	Other receivables	-	3,229
166,553	155,016		155,206	149,217

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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 2011 for the major customers are summarised below:

Group			Company	
Credit limit	Receivables		Credit limit	Receivables
12,600	12,357	Customer A	12,600	12,357
10,000	9,868	Customer B	10,000	9,868
7,800	7,167	Customer C	7,800	7,167
5,200	5,135	Customer D	5,200	5,135
4,800	4,778	Customer E	4,800	4,778
3,700	3,637	Customer F	3,700	3,637
16,500	10,036	Customer G		
8,940	5,207	Customer H		

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	-	-

Trade receivables did not significantly exceed the established credit limits.

The table below summaries concentration of the loans granted:

Group			Company	
2011	2010		2011	2010
48,397	28,576	Loans granted for amount of above LTL 2 million	49,634	23,572
6,543	8,016	Loans granted for amount above LTL 1 million but not more than LTL 2 million	4,608	7,608
7,518	11,799	Loans granted for amount less than LTL 1 million	6,877	10,906
62,458	48,391		61,119	42,086

Loans in excess of LTL 2 million were granted to the following companies: Agrofirma Turiba SIA, Litrada UAB, Pieno Pramonės Investicijų Valdymas, Dzūkijos Pienas KB, individual farmer K.Deveikis, Žeimelis ŽŪB, Draugas ŽŪB.

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(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 2011	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	43,640	28,579	-	-
Trade payables	54,772	-	-	-
Other payable	-	-	-	-
	98,412	28,579	-	-

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	-	-

Group

At 31 December 2011	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	43,640	28,579	-	-
Trade payables	49,370	-	-	-
Other payable	-	-	-	-
	93,010	28,579	-	-

At 31 December 2010	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years
Borrowings from banks	33,717	25,207	103	-
Trade payables	42,498	-	-	-
Other payable	12,442	-	-	-
	88,657	25,207	103	-

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.

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

Group			Company	
2011	2010		2011	2010
71,707	59,076	Borrowings	71,707	58,973
(10,576)	(19,524)	Less: cash and cash equivalents	(8,294)	(17,902)
61,131	39,552	Net debt	63,413	41,071
289,362	194,634	Shareholders' equity	257,264	182,809
350,493	234,186	Total capital	320,677	223,880

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 150,000 (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 2011 and 31 December 2010 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.

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 expected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and actions of competitors.

Revaluation of property, plant and equipment

With effect from 31 December 2011, the Company and the Group account for property, plant and equipment at revalued amount less accumulated depreciation and impairment loss. Based on new accounting policy, revaluations are carried out periodically to ensure that the carrying amount of property, plant and equipment does not significantly differ from the value which would have been determined had the fair value been used at the end of the reporting period. In 2011, valuation of property, plant and equipment was carried out by Vadasa UAB using the comparative market price method. In the opinion of the Company's management, the values of property, plant and equipment adjusted using these methods as at 31 December 2011 approximate its fair value.

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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. The segment of fresh milk products includes 2 external customers with each individual revenue accounting for 10% of total revenue of the segment.

Segment information for the years ended 31 December 2011 and 2010:

	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2011				
Sales	310,369	689,336	68,585	1,068,290
Inter-segment sales	(86,730)	(227,433)	(66,102)	(380,265)
Sales to external customers	223,639	461,903	2,483	688,025
Segment's gross profit	45,259	50,173	2,239	97,671
Depreciation and amortisation	5,061	18,119	311	23,491
Income tax expense	295	5,264	25	5,584
Total assets	87,621	412,762	13,645	514,028
Elimination of intercompany transactions				(66,171)
Total assets less intercompany transactions				447,857
Additions to non-current assets (other than financial instruments and deferred tax assets)	5,613	10,516	323	16,452
Total liabilities	28,757	155,497	10,845	195,099
Elimination of intercompany transactions				(36,604)
Total liabilities less intercompany				158,495

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	Fresh milk products	Cheese and other dairy products	Other segments (unallocated)	Group
2010				
Sales	244,738	533,555	51,720	830,013
Inter-segment sales	(44,987)	(180,803)	(50,463)	(276,253)
Sales to external customers	199,751	352,752	1,257	553,760
Segment's gross profit	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
Elimination of intercompany transactions				(65,707)
Total assets less intercompany transactions				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
Elimination of intercompany transactions				(35,095)
Total liabilities less intercompany transactions				128,026

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	
	2011	2010	2011	2010	2011	2010
Lithuania	240,496	191,934	412,762	308,390	10,775	4,264
Europe Union countries	328,155	248,996	-	-	-	-
Other countries	120,685	92,625	-	-	-	-
	689,336	533,555	412,762	308,390	10,775	4,264

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	
	2011	2010	2011	2010	2011	2010
Lithuania	225,725	201,784	445,111	321,789	16,209	6,422
Europe Union countries	341,615	259,351	2,746	871	216	102
Other countries	120,685	92,625	-	-	-	-
	688,025	553,760	447,857	322,660	16,425	6,524

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

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The analysis of the Company's revenue by category:

	2011	2010
Revenue from sales of goods	666,211	511,518
Export subsidies	-	374
Other revenue (milk transportation)	23,125	21,663
	689,336	533,555

The analysis of the Group's revenue by category:

	2011	2010
Revenue from sales of goods	687,072	550,905
Export subsidies	-	374
Other revenue (milk transportation)	953	2,481
	688,025	553,760

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	
2011	2010		2011	2010
4,604	4,727	Marketing services	-	-
8,251	7,373	Wages and salaries	3,921	3,424
11,527	9,474	Transportation services	10,468	8,215
2,008	1,594	Product image creation and advertising expenses	435	64
2,462	2,297	Repairs and maintenance	2,101	1,928
1,620	1,900	Depreciation of property, plant and equipment	1,439	1,623
42	10	Warehousing services	42	10
4,280	3,798	Other expenses	6,971	2,966
34,794	31,173		25,377	18,230

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7. General and administrative expenses

Group			Company	
2011	2010		2011	2010
7,701	6,965	Wages and salaries	5,188	4,581
180	191	Taxes (other than income tax)	137	104
23	3,068	Provisions for impairment of loans granted and write-offs of loans (Note 19 and Note 21)	23	1,545
15,720	-	Provisions for impairment of doubtful receivables	15,720	-
482	95	Consultations	334	483
-	144	Write-offs of investments (Note 17)	586	1,144
	-	Write-off of amount receivable from the liquidated subsidiary Europienas UAB		-
1,358	1,143	Depreciation of property, plant and equipment and amortisation of intangible assets	895	647
608	681	Repairs and maintenance	498	571
1,168	4,918	Paid and accrued bonuses	1,168	4,918
278	343	Telecommunications and IT maintenance expenses	200	240
223	201	Insurance expenses	167	144
-	-	Write-offs of property, plant and equipment	-	-
585	658	Bank charges	535	599
622	152	Business trips	506	90
95	162	Fines	6	6
479	200	Staff training	452	179
45	118	Membership fees	39	113
364	348	Charity, support	115	205
2,982	3,116	Other expenses	2,106	1,785
<u>32,913</u>	<u>22,503</u>		<u>28,675</u>	<u>17,354</u>

8. Other income

Group			Company	
2011	2010		2011	2010
17,541	6,491	Re-sale of goods	17,526	6,518
3,635	3,930	Interest income	2,847	3,581
1,860	1,787	Other income	1,584	1,456
<u>23,036</u>	<u>12,208</u>		<u>21,957</u>	<u>11,555</u>

9. Other expenses

Group			Company	
2011	2010		2011	2010
17,536	6,433	Cost of goods resold	17,534	6,464
465	475	Other expenses	473	498
<u>18,001</u>	<u>6,908</u>		<u>18,007</u>	<u>6,962</u>

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10. Other operating losses

Group			Company	
2011	2010		2011	2010
142	(51)	Loss on disposal of property, plant and equipment (Note 32)	130	(20)
<u>142</u>	<u>(51)</u>		<u>130</u>	<u>(20)</u>

11. Expenses by nature

Group			Company	
2011	2010		2011	2010
440,760	355,191	Raw materials and consumables used	414,988	333,383
(32,382)	(32,364)	Changes in inventories of finished goods and work in progress	(31,783)	(31,080)
52,363	46,320	Salaries including social security costs	34,164	29,377
38,566	39,642	Transportation services	37,470	30,139
1,168	4,918	Paid and accrued bonuses	1,168	4,918
23,630	26,392	Depreciation and amortisation	18,329	21,077
(3,258)	(3,326)	Amortisation of the Government grant for property, plant and equipment (Note 27)	(2,633)	(2,812)
4,604	4,727	Marketing services	-	-
9,880	8,731	Repairs and maintenance	9,058	7,962
8,553	-	Cost of finished goods resold	87,790	35,696
-	-	Write-offs of investments	584	1,144
23	3,068	Impairment of amounts receivable	435	1,545
-	-	Write-offs of amounts receivable from liquidated companies	-	-
379	381	Taxes (other than income tax)	320	280
482	95	Consultations	334	483
355	430	Telecommunications and IT maintenance expenses	277	326
44,839	38,217	Utilities (energy)	28,318	23,945
68,099	36,924	Other	67,940	51,774
<u>658,061</u>	<u>529,346</u>	Total cost of sales, selling and marketing expenses and general and administrative expenses	<u>666,759</u>	<u>508,157</u>

12. Finance costs

Group			Company	
2011	2010		2011	2010
1,903	1,016	Interest expense:	1,508	1,016
1	1	- bank borrowings	1	1
<u>1,904</u>	<u>1,017</u>	- finance leases	<u>1,509</u>	<u>1,017</u>

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13. Income tax

Group			Company	
2011	2010		2011	2010
(6,148)	(5,144)	Current income tax	(5,592)	(4,993)
531	147	Prior year income tax corrections	531	(6)
33	912	Deferred income tax (Note 18)	(203)	923
<u>(5,584)</u>	<u>(4,085)</u>	Income tax benefit (expenses)	<u>(5,264)</u>	<u>(4,076)</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	
2011	2010		2011	2010
33,237	28,646	Profit/(loss) before income tax	25,148	28,954
4,986	4,297	Tax calculated at a rate of 15% (2010: 15%) (Note 2.15)	3,772	4,343
2,292	410	Expenses not deductible for tax purposes	2,545	192
(83)	(190)	Income not subject to tax	(73)	(142)
(101)	(98)	Charity expenses deductible twice for tax purposes	(28)	(55)
(979)	(340)	Other expenses deductible for tax purposes	(421)	(268)
(531)	6	Prior year income tax adjustments	(531)	6
<u>5,584</u>	<u>4,085</u>	Income tax expense/(income)	<u>5,264</u>	<u>4,076</u>

Expenses not deductible for tax purposes include representation expenses, write-offs, etc. Income not subject to tax include interest on late payment and insurance benefits received.

The tax authorities have carried out a full-scope tax audit 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	
2011	2010		2011	2010
27,653	24,561	Net profit (loss) attributable to shareholders	19,884	24,878
35,604	37,663	Weighted average number of ordinary shares in issue (thousand)	35,604	37,663
<u>0.78</u>	<u>0.65</u>	Basic earnings (deficit) per share (LTL per share)	<u>0.56</u>	<u>0.66</u>

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

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15. Property, plant and equipment

Company	Buildings	Plant and machinery	Vehicles equipment & other	Construct- ion in progress	Total
At 1 January 2010					
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
Year ended 31 December 2011					
Opening net book amount	21,582	29,392	11,288	267	62,529
Additions	672	5,417	3,827	859	10,775
Revaluation	10,521	43,422	19,029	-	72,972
Disposals	(132)	(1)	(345)	-	(478)
Write-offs	-	(20)	(16)	-	(36)
Transfers from CIP	-	634	-	(634)	-
Depreciation charge	(1,255)	(11,886)	(4,976)	-	(18,117)
Closing net book amount	31,388	66,958	28,807	492	127,645
At 31 December 2011					
Cost	45,839	185,704	91,930	492	323,965
Accumulated depreciation	(14,451)	(118,746)	(63,123)	-	(196,320)
Net book amount	31,388	66,958	28,807	492	127,645

As at 31 December 2011, the Company's and the Group's property, plant and equipment was revaluated. The fair value of assets was determined by an independent property valuer Vadasa UAB. The valuation of assets was carried out using the comparative market price method. Gain on revaluation of property, plant and equipment was disclosed in the tables of movements in property, plant and equipment, and was recognised in other comprehensive income.

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Group	Buildings	Plant and machinery	Vehicles equipment & other	Construct- ion in progress	Total
At 1 January 2010					
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
Year ended 31 December 2011					
Opening net book amount	33,155	42,321	12,239	761	88,476
Additions	601	6,841	4,227	4,756	16,425
Revaluation	19,273	49,896	19,261	-	88,430
Disposals	(141)	(1)	(344)	-	(486)
Write-offs	-	(28)	(16)	-	(44)
Transfers from CIP	1,068	3,496	297	(4,861)	-
Depreciation charge	(3,291)	(15,409)	(4,791)	-	(23,491)
Closing net book amount	50,665	87,116	30,873	656	169,310
At 31 December 2011					
Cost	69,552	220,028	95,092	656	385,328
Accumulated depreciation	(18,887)	(132,912)	(64,219)	-	(216,018)
Net book amount	50,665	87,116	30,873	656	169,310

As at 31 December 2011, certain Company's and Groups property, plant and equipment with a carrying value of LTL 47,471 thousand and LTL 67,970 thousand respectively (31 December 2010: LTL 58,051 thousand) was 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 income statement, as well as in work in progress and finished goods in the balance sheet.

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16. Intangible assets

Company	Computer software
At 1 January 2010	
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>
Year ended 31 December 2011	
Opening net book amount	564
Additions	72
Amortisation charge	(212)
Closing net book amount	<u>424</u>
At 31 December 2011	
Cost	2,363
Accumulated amortisation	(1,939)
Net book amount	<u>424</u>

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Group	Contractual client relationship	Computer software	Total
At 1 January 2010			
Cost	6,787	2,323	9,110
Accumulated amortisation	(6,787)	(1,933)	(8,720)
Net book amount	-	390	390
Year ended 31 December 2010			
Opening net book amount	-	390	390
Additions	-	239	239
Amortisation charge	-	(137)	(137)
Closing net book amount	-	492	492
At 31 December 2010			
Cost	-	2,562	2,562
Accumulated amortisation	-	(2,070)	(2,070)
Net book amount	-	492	492
Year ended 31 December 2011			
Opening net book amount	-	492	492
Additions	-	73	73
Acquisition of non-controlling interest in subsidiaries	904	-	904
Amortisation charge	-	(139)	(139)
Closing net book amount	904	426	1,330
At 31 December 2011			
Cost	904	2,635	3,539
Accumulated amortisation	-	(2,209)	(2,209)
Net book amount	904	426	1,330

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

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17. Investments

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

At 31 December 2009	28,304
Acquisition of associates	353
Impairment loss	(1,000)
Disposal of subsidiary	(170)
At 31 December 2010	27,487
Acquisition of non-controlling interest in subsidiaries	1,438
Liquidation of subsidiary	(584)
At 31 December 2010	28,341

The Company holds 50% of shares in a joint venture Pieno Upės UAB with total assets amounting to LTL 2,362 thousand (2010: LTL 2,267 thousand), total liabilities amounting to LTL 1,077 thousand (2010: LTL 1,011 thousand), revenue amounting to LTL 14,344 thousand (2010: LTL 12,236 thousand) and net profit amounting to LTL 228 thousand (2010: LTL 331 thousand).

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	
2011	2010		2011	2010
		Deferred income tax assets:		
479	479	– to be recovered after more than 12 months	479	479
615	818	– to be recovered within 12 months	615	818
<u>1,094</u>	<u>1 297</u>		<u>1,094</u>	<u>1,297</u>
		Deferred income tax liabilities:		
(13,425)	(257)	– to be settled after more than 12 months	-	-
-	(139)	– to be settled within 12 months	(10,946)	-
<u>(13,425)</u>	<u>(396)</u>		<u>(10,946)</u>	<u>-</u>
<u>(12,331)</u>	<u>(901)</u>	Net deferred income tax assets	<u>(9,852)</u>	<u>1,297</u>

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

Group			Company	
2011	2010		2011	2010
901	(11)	At beginning of the year	1,297	374
33	912	Recognised in the income statement (Note 13)	(203)	923
(13 265)	-	Recognised in the statement of comprehensive income	(10,946)	-
<u>(12 331)</u>	<u>901</u>	At end of the year	<u>(9,852)</u>	<u>1,297</u>

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:

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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 2010	60	314	-	-	374
Recognised in the income statement	(60)	165	-	818	923
At 31 December 2010	-	479	-	818	1,297
Recognised in the income statement	253	-	-	(456)	(203)
At 31 December 2011	253	479	-	362	1,094

Deferred income tax liabilities	Revaluation of property, plant and equipment	Total
At 1 January 2010	-	-
Recognised in the income statement	-	-
At 31 December 2010	-	-
Recognised in the income statement	-	-
Recognised in other comprehensive income	(10,946)	(10,946)
At 31 December 2011	(10,946)	(10,946)

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 2010	60	314	-	-	374
Recognised in the income statement	(60)	165	-	818	923
At 31 December 2010	-	479	-	818	1,297
Recognised in the income statement	253	-	-	(456)	(203)
At 31 December 2011	253	479	-	362	1,094

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Deferred income tax liabilities	Accelerated tax depreciation	Revaluation of property, plant and equipment	Total
At 1 January 2010	(385)	-	(385)
Recognised in the income statement	(11)	-	(11)
At 31 December 2010	(396)	-	(396)
Recognised in the income statement	236	-	236
Recognised in other comprehensive income	-	(13,265)	(13,265)
At 31 December 2011	(160)	(13,265)	(13,425)

Deferred income tax assets and deferred income tax liabilities were calculated using a tax rate of 15% (2010: 15%) enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

19. Loans granted

Group			Company	
2011	2010		2011	2010
569	8,143	Long-term loans to farmers	684	8,143
7,406	404	Long-term loans to employees	7,291	404
4,089	7,515	Other long-term loans	5,804	6,023
(3,096)	(3,003)	Less: provision for impairment of loans receivable	(3,096)	(3,003)
8,968	13,059	Long-term loans, net	10,683	11,567
13,365	3,762	Current portion of loans to farmers	12,460	3,730
328	329	Current portion of loans to employees	114	105
39,797	31,950	Other short-term loans granted	37,862	27,393
-	(709)	Less: provision for impairment of loans receivable	-	(709)
53,490	35,332	Current portion of long-term loans and short-term loans	50,436	30,519

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 was 9.37 per cent (2010: 10.92 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 9.34 per cent (2010: 12.97 per cent).

As at 31 December 2011, the fair value of loans granted to employees amounted to LTL 615 thousand (2010: LTL 360 thousand). As at 31 December 2011, the fair value of loans granted to farmers amounted to LTL 16,212 thousand (2010: LTL 10,718 thousand).

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

Group			Company	
2011	2010		2011	2010
59,716	46,226	Loans granted not past due	58,377	39,921
3,369	1,955	Loans granted past due but not impaired	3,369	1,955
2,469	3,922	Impaired loans granted	2,469	3,922
65,554	52,103	Gross value of loans granted	64,215	45,798
(3,096)	(3,712)	Impairment of amounts uncollectible	(3,096)	(3,712)
62,458	48,391	Net amount	61,119	42,086

20. Inventories

Group			Company	
2011	2010		2011	2010
7,002	7,074	Raw materials	2,710	3,344
17,752	13,915	Work in progress	17,291	13,458
68,335	38,748	Finished products	66,342	36,512
3,569	2,849	Other inventories	2,688	2,245
96,658	62,586	Total inventories at cost	89,031	55,558
(1,690)	-	Less: inventory write-down to net realizable value	(1,690)	-
94,968	62,586	Total inventories	87,341	55,559

As at 31 December 2011, inventories with cost of LTL 25,000 thousand (31 December 2010: LTL 25,000 thousand) were pledged as security for bank borrowings.

As at 31 December 2011, the Company did not hold any inventories with third parties.

21. Trade and other receivables

Group			Company	
2011	2010		2011	2010
-	3,229	Non-current receivables		
		Other receivables	-	3,229
		Current receivables		
93,575	83,872	Trade receivables	85,793	86,000
4,079	3,601	VAT receivable	3,583	2,456
1,311	2,608	Advance payments and deferred expenses	1,090	1,750
98,965	90,081		90,466	90,206

As at 31 December 2011, trade receivables amounting to LTL 27,868 thousand (31 December 2010: LTL 29,572 thousand) were pledged as security for bank borrowings.

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

Group			Company	
2011	2010		2011	2010
76,389	74,625	Trade receivable neither past due nor impaired	71,454	77,822
17,186	9,247	Trade receivable past due but not impaired	14,339	8,178
5,766	5,331	Impairment of amounts uncollectible	5,766	5,331
99,341	89,203	Gross value	91,559	91,331
(5,766)	(5,331)	Impairment charge	(5,766)	(5,331)
93,575	83,872	Net value of loans granted	85,793	86,000

The Group received no collaterals for impaired amounts receivable. As at 31 December 2011, the Company's trade receivables amounting to LTL 17,144 thousand (31 December 2010: LTL 22,970 thousand) from its subsidiary Rokiškio Pienas UAB were neither past due nor impaired.

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	
2011	2010		2011	2010
10,507	8,864	Up to 30 days	8,652	7,827
2,868	280	31 to 60 days	1,909	270
3,750	76	61 to 180 days	3,717	75
61	27	More than 181 days	61	6
17,186	9,247		14,339	8,178

22. Cash and cash equivalents

Group			Company	
At 31 December			At 31 December	
2011	2010		2011	2010
6,602	16,749	Short-term deposits	6,582	16,699
3,974	2,775	Cash at bank and in hand	1,712	1,203
10,576	19,524		8,294	17,902

As at 31 December 2011 and 2010, cash in bank accounts and future cash inflows into these accounts were pledged as security for bank borrowings. As at 31 December 2011, cash balances in the pledged accounts amounted to LTL 7,605 thousand (31 December 2010: LTL 7,163 thousand).

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

Group			Company	
At 31 December			At 31 December	
2011	2010		2011	2010
6,602	16,749	Short-term deposits	6,582	16,699
3,974	2,776	Cash at bank and in hand	1,712	1,203
(12,114)	(14,926)	Bank overdrafts (Note 26)	(12,114)	(14,926)
(1,538)	4,599		(3,820)	-2,976

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23. Share capital

As at 31 December 2011, the share capital was divided into 35,867,970 (31 December 2010: LTL 38,444,894) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid.

24. Treasury shares

	2011		2010	
	Number	Amount	Number	Amount
At beginning of the year	2,576,924	(11,478)	-	-
Treasury shares acquired	802,094	(3,868)	2,576,924	(11,478)
Reduction of share capital	2,576,924	11,478	-	-
	802,094	(3,868)	2,576,924	(11,478)

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

The Company is not entitled to exercise property and non-property rights in respect of treasury shares acquired as stipulated in the Lithuanian Law on Companies.

Following the cancellation of treasury shares acquired, the authorised share capital of Rokiškio Sūris AB amounts to LTL 35,867,970 (thirty-five million, eight hundred and sixty-seven thousand, nine hundred and seventy litas) divided into 35,867,970 (thirty-five million, eight hundred and sixty-seven thousand, nine hundred and seventy litas) ordinary registered shares with par value of LTL 1 (one litas) each.

The newly revised Articles of Association in relation to the reduction of the share capital were registered with the Register of Legal Entities on 8 March 2011.

25. Other reserves and reserve for acquisition of treasury shares

Other reserves

Non-distributable reserves of LTL 3,593 thousand can only be used to increase the share capital and non-distributable reserves of LTL 3,840 thousand (legal reserve) can only be used to cover future operating losses, if any. Remaining reserve of LTL 62,026 thousand relates to revaluation of property plant and equipment (described below).

Reserve for acquisition of treasury shares

During the ordinary general meeting of shareholders of Rokiškio Sūris AB held on 29 April 2011 a decision was passed *On the Formation of the Reserve for Acquisition of Treasury Shares*. The total amount of the reserve for the acquisition of treasury shares including the previously formed reserve for acquisition of treasury shares is LTL 40,287 thousand.

Revaluation reserve

Revaluation reserve represents an increase in the value of property, plant and equipment as a result of its revaluation. This reserve may not be used to cover losses. Movements in revaluation reserve are given in the table below:

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Company	Revaluation reserve	Deferred income tax	Net of deferred income tax
At 31 December 2010	-	-	-
Revaluation of property, plant and equipment	72,972	(10,946)	62,026
At 31 December 2011	72,972	(10,946)	62,026
Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
At 31 December 2010	-	-	-
Revaluation of property, plant and equipment	88,430	(13,265)	75,165
At 31 December 2011	88,430	(13,265)	75,165

26. Borrowings

Group			Company	
2011	2010		2011	2010
		Current		
59,557	43,997	Current bank borrowings	59,557	43,997
12,114	14,926	Bank overdrafts	12,114	14,926
36	50	Finance lease liabilities	36	50
<u>71,707</u>	<u>58,973</u>		<u>71,707</u>	<u>58,973</u>
		Non-current		
-	103	Non-current bank borrowings	-	-
-	-	Finance lease liabilities	-	-
	<u>103</u>			<u>-</u>
<u>71,707</u>	<u>59,076</u>	Total borrowings	<u>71,707</u>	<u>58,973</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	
2011	2010		2011	2010
2.38	2.56	Current bank borrowings	2.38	2.52
1.73	2.38	Bank overdrafts	1.73	2.38

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

Group			Company	
2011	2010		2011	2010
59,593	44,047	EUR	59,593	44,047
12,114	14,926	LTL	12,114	14,926
<u>71,707</u>	<u>58,973</u>		<u>71,707</u>	<u>58,973</u>

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

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As at 31 December 2011, according to the agreement concluded with the banks, the balances of credit lines and overdrafts not withdrawn by the Company and the Group amounted to LTL 51,817 thousand and 51,817 thousand, respectively (2010: LTL 56,798 thousand and LTL 57,818 thousand, respectively).

The Group is not in breach of borrowing limits or covenants (where applicable) established.

27. Deferred income

Group			Company	
2011	2010		2011	2010
7,795	10,279	Government grants at beginning of year	5,330	7,789
3,302	842	New grants received	1,862	362
(3,156)	(3,326)	Amortisation of deferred income to match related depreciation	(2,530)	(2,821)
7,941	7,795		4,662	5,330
(4,683)	(4,989)	Less: non-current portion	(2,030)	(3,031)
3,258	2,806	Current portion	2,632	2,299

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

28. Trade and other payables

Group			Company	
2011	2010		2011	2010
49,370	42,498	Trade payables	54,772	45,887
4,356	3,817	Salaries, social security and taxes	2,806	2,352
1,420	2,014	Other payables	874	612
3,422	6,611	Bonuses and vacation reserve	3,315	6,611
58,568	54,940		61,767	55,462

As at 31 December 2011, trade payables to Rokiškio Pienas UAB amounted to LTL 12,333 thousand (31 December 2010: LTL 8,686 thousand).

29. Provisions

In March 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 provision. For the purpose of the income statement for the year ended 31 December 2008, the above-mentioned amount was included in administrative expenses. In 2011, based on the updated resolution of the Competition Council, the fine was increased up to LTL 1,650 thousand. The Company appealed against this resolution and on 26 January 2012 Vilnius Regional Administrative Court ruled to meet the Company's complaint in full. The latter Court's ruling was appealed against to the Lithuanian Supreme Administrative Court and its final outcome is not clear yet.

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30. Contingent liabilities and commitments

Contingent liabilities

Group			Company	
2011	2010		2011	2010
3,920	4,799	Guarantees issued by the bank to third parties on behalf of the Group	3,920	4,799
-	-	Guarantees issued by the Group on behalf of farmers and agricultural companies	-	-
<u>3,920</u>	<u>4,799</u>		<u>3,920</u>	<u>4,799</u>

The Group has issued 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 amounted to LTL 657 thousand (31 December 2010: LTL 2,437 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	
2011	2010		2011	2010
16	250	Not later than 1 year	16	250
-	-	Later than 1 year but not later than 5 years	-	-
<u>16</u>	<u>250</u>		<u>16</u>	<u>250</u>

31. Available-for-sale financial assets

As at 31 December 2011, available-for-sale debt securities of the Company and the Group represented bonds issued by the Lithuanian Government amounting to LTL 6,690 thousand (31 December 2010: LTL 6,886 thousand). Fair value was estimated with reference to quoted prices in active markets for identical assets.

Initial yields and maturities of debt securities are as follows:

	Yield	Maturity
Securities of the Lithuanian Government	4.50%-5.25%	2017.09.22

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32. Cash generated from operations

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

Group			Company	
At 31 December			At 31 December	
2011	2010		2011	2010
33,237	28,646	Net profit (loss) before income tax	25,148	28,954
		Adjustments for:		
23,491	26,255	– depreciation (Note 15)	18,117	21,002
139	137	– amortisation and impairment charge (Note 16)	212	75
44	30	– write-off of property, plant and equipment and intangible assets (Notes 15 and 16)	36	30
(142)	51	– loss on disposal of property, plant and equipment (Note 10)	(130)	20
1,903	1,016	– interest expense (Note 12)	1,509	1,016
(2,648)	(3,930)	– interest income (Note 8)	(2,316)	(3,581)
1,690	-	– write-offs of inventories	1,690	-
190	170	– impairment of investments into subsidiaries (Note 17)	780	1,144
		– impairment of doubtful receivables and write-offs of bad receivables (Note 21)	524	90
	1,455	– Impairment and write-offs of loans granted to farmers (Note 19)	-	1,455
(1,604)	(5,450)	– amortised cost of loans granted	-	-
(534)		– accrual for vacation reserve and bonus	(1,604)	(5,450)
(3,259)	(3,326)	– non-controlling interests	-	-
		– amortisation of government grants received (Note 27)	(2,633)	(2,821)
		Changes in working capital:		
(9,937)	(23,918)	– amounts receivable and prepayments	(2,406)	(37,016)
(34,071)	(32,363)	– inventories	(33,474)	(31,081)
5,679	11,692	– amounts payable	7,585	16,908
<u>14,702</u>	<u>2,077</u>	Net cash generated from operations	<u>13,038</u>	<u>(9,256)</u>

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

2011	2010		2011	2010
486	340	Net book amount (Note 15)	477	289
142	(51)	Loss on disposal of property, plant and equipment (Note 10)	130	(20)
<u>628</u>	<u>289</u>	Proceeds from sale of property, plant and equipment	<u>607</u>	<u>269</u>

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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 58.31 per cent (2010: 51.76 per cent) of the Company's share capital and 59.65 per cent (2010: 55.48 per cent) of voting rights. (802,094 treasury shares acquired by the Company do not have voting rights). Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 41.69 per cent of the Company's share capital are widely held. The Company's related parties, such as the Company's Board, PPIV, board, management of the Company or the Group and their close family members, together hold 66.41 per cent (2010: 61.43 per cent) of the Company's shares with 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	
2011	2010	2011	2010

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

13,688	22,688	Purchase of raw milk from other related parties	85,298	78,106
20	-	Purchase of non-current assets	280	38
-	-	Purchase of inventory	86,747	42,543
5,449	3,707	Purchases of services	10,729	10,901
	-	Purchase of consulting services	713	284
5	1,318	Sales of transportation services to other related parties	21,903	20,845
1,067	869	Sales of production and other inventories	205,839	162,163
-	-	Sale of non-current assets	-	73
81	320	Interest charges on credit facility	81	320

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

2011	2010		2011	2010
181	191	Non-interest bearing loans granted to Senior Management (and their families)	181	191
		Credit facility granted to Pieno Pramonės Investicijų		
9,338	10,856	Valdymas UAB	9,338	10,856
-	-	Loan granted to Jekabpils Piena Kombinats SIA	5,550	1,501
972	1,422	Trade payables to other related parties	17,910	13,803
-	-	Trade receivables from other related parties	17,144	22,970

(iii) Compensation of key management

2011	2010		2011	2010
676	674	Salaries	615	674
1,168	4,920	Bonuses	1,168	4,920
190	192	Social security contributions	171	192
<u>2,034</u>	<u>5,786</u>		<u>1,954</u>	<u>5,786</u>

Key management includes 9 (2010: 9) members of the Board and Senior Management.

34. Events after the end of the reporting period

On 13 February 2012, amendment to overdraft agreement was signed with the bank in relation to extension of the repayment term for overdraft limit of LTL 2 million until 31 January 2013 and extension of the agreement for credit limit of EUR 18 million until 14 February 2013. The total amount of credit limit is equal to LTL 64,150 thousand no amendments to interest rate established were made.

As at 7 March 2012 the Company has sold its debt securities for the amount of LTL 7,059 thousand. In the Company's and the Group's balance sheet as at 31 December 2011, these securities were accounted for within available-for-sale financial assets.