

**AB Pieno žvaigždės**

Consolidated financial  
statements for 2004

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## **Parent company details**

### **AB Pieno žvaigždės**

Telephone + 370 5 246 1414  
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Registration no: BĮ 01-155  
Registered office: Laisvės pr. 125,  
Vilnius, Lithuania

### **Board**

Julius Kvaraciejus (Chairman)  
Kjell Lennart Carlson  
Valdemaras Klovas  
Virginijus Jankauskas  
Regina Kvaraciejienė  
Hans Mideus  
Kristina Mileiko  
Valentinas Paura  
Lary Svensson  
Aleksandr Smagin

### **Management**

Aleksandr Smagin (Managing director)

### **Auditors**

KPMG Lietuva

### **Banks**

AB Vilniaus Bankas  
AB Hansabankas  
Sampo Bankas  
Bank Nord/LB Lietuva

## Financial highlights

LTL'000	2004	2003
<b>Key figures</b>		
<b>Turnover</b>	<b>397,512</b>	<b>367,625</b>
Gross profit	89,338	89,342
Operating profit	20,770	22,033
Profit before taxation	21,920	18,961
<b>Profit for the year</b>	<b>19,066</b>	<b>17,066</b>
Minority interest	-	-1,033
<b>Net profit for the year</b>	<b>19,066</b>	<b>16 033</b>
Non-current assets	163,610	152,852
Current assets	90,447	74,977
<b>Total assets</b>	<b>254,057</b>	<b>227,829</b>
Share capital	54,205	54,030
<b>Capital and reserves</b>	<b>113,285</b>	<b>94,786</b>
<b>Minority interest</b>	<b>-</b>	<b>10,935</b>
Deferred grants	7,190	4,966
Non-current liabilities	61,642	49,899
Current liabilities	71,940	67,243
Net cash flow from operating activities	20,141	33,448
Net cash flow from investing activities	-33,188	-41,095
Net cash flow from financing activities	10,934	10,646
<b>Total cash flow</b>	<b>-2,113</b>	<b>2,999</b>
<b>Average number of employees</b>	<b>2,882</b>	<b>2,910</b>
<b>Financial ratios</b>		
Net profit ratio	4.8%	4.4%
Return on investment	8.2%	9.7%
Gross margin	22.5%	24.3%
Current ratio	125.7%	111.5%
Equity ratio	84.8%	80.9%
EBITDA	49.091	43.992
<b>Return on equity</b>	<b>17.2%</b>	<b>22.3%</b>

## **Financial highlights**

### **Calculation of financial ratios**

Net profit ratio	$\frac{\text{Net profit} \times 100}{\text{Turnover}}$
Return on investment	$\frac{\text{Profit/loss on operating activities before interest etc.} \times 100}{\text{Total assets}}$
Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Turnover}}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Short-term creditors}}$
Equity ratio	$\frac{\text{Capital and reserves at year end} \times 100}{\text{Total liabilities at year end}}$
EBITDA	Profit before interest, income tax, depreciation and amortisation
Return on equity	$\frac{\text{Profit for purposes of analysis} \times 100}{\text{Average capital and reserves}}$
Profit for purposes of analysis	Profit/loss on ordinary activities after tax

## **Management's statement on the accounts**

The Management have today discussed and adopted the consolidated annual accounts and the report.

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the consolidated annual accounts thus give a true and fair view.

We recommend the consolidated annual accounts to be approved at the General Meeting.

Vilnius, 22 March 2005

Management:

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Aleksandr Smagin  
Managing Director

## **Report of the auditor to the shareholders of AB Pieno Žvaigždės**

### **Scope**

We have audited the accompanying consolidated balance sheet of AB Pieno žvaigždės as at 31 December 2004 and the related statements of income, changes in equity and cash flows for the year then ended.

### **Respective responsibilities of directors and auditors**

These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

### **Basis of the opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AB Pieno Žvaigždės as at 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vilnius, 22 March 2005  
KPMG Lietuva

Leif Rene Hansen  
Danish State Authorised  
Public Accountant

Rokas Kasperavičius  
ACCA member and Lithuanian  
Certified Auditor

## Profit and loss account

	Note	2004 Litas'000	2003 restated Litas'000
<b>Turnover</b>	2	397,512	367,625
Production costs		-308,174	-278,283
<b>Gross profit</b>		89,338	89,342
Operating costs	4	-71,536	-69,666
Other operating income, net	5	2,968	2,357
<b>Operating profit</b>		20,770	22,033
Financial income	6	4,609	623
Financial expenses	7	-3,459	-3,695
<b>Profit before tax</b>		21,920	18,961
Profit tax	8	- 2,854	-1,895
<b>Profit after tax</b>		19,066	17,066
Minority interest		-	-1,033
<b>Net profit for the year</b>		19,066	16,033
Earnings per share	9	0.35	0.30



## Balance sheet

	Note	31 December 2004	31 December 2003 restated
		Litas'000	Litas'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	159,942	150,185
Intangible assets	11	2,370	1,967
Available for sale investments		447	514
Non-current receivables		321	186
Deferred tax	8	530	-
<b>Total non-current assets</b>		<u>163,610</u>	<u>152,852</u>
<b>Current assets</b>			
Inventories	12	40,413	36,910
Trade receivables	13	30,561	26,684
Other receivables	14	15,430	5,227
Cash and cash equivalents	15	4,043	6,156
<b>Total current assets</b>		<u>90,447</u>	<u>74,977</u>
<b>TOTAL ASSETS</b>		<u>254,057</u>	<u>227,829</u>

## Balance sheet

	Note	31 December 2004	31 December 2003 restated
		Litas'000	Litas'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>	16		
Share capital		54,205	54,030
Share premium		27,246	26,612
Own shares		-108	-108
Legal reserve		4,842	4,382
Other reserves		16,537	10,291
Retained earnings		10,563	-421
<b>Total capital and reserves</b>		<u>113,285</u>	<u>94,786</u>
<b>Minority interest</b>		<u>-</u>	<u>10,935</u>
<b>Non-current liabilities</b>			
Subsidies	17	7,190	4,966
Long-term loans	18	61,642	49,899
<b>Total non-current liabilities</b>		<u>68,832</u>	<u>54,865</u>
<b>Current liabilities</b>			
Short-term loans	18	32,377	29,000
Trade creditors		25,971	27,679
Other creditors	19	13,592	10,564
<b>Total current liabilities</b>		<u>71,940</u>	<u>67,243</u>
<b>Total liabilities</b>		<u>140,772</u>	<u>122,108</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>254,057</u>	<u>227,829</u>
<b>Contingencies</b>	20		
<b>Staff costs</b>	21		
<b>Related party transactions</b>	22		

## Statement of changes in shareholders' equity for the year ended 31 December

LTL'000	No te	Share capital	Share premium	Treasu ry shares	Legal reserve	Revaluation reserve	Other reserve	Retained earnings	Total
Capital and reserves at 1 January 2003	16	49,630	15,436	-85	4,382		15,272	1,081	85,716
Correction of fundamental error								- 6,877	- 6,877
Adjustment of share capital and premium		4,400	11,176					-15,576	0
Restated capital and reserves at 1 January 2003		54,030	26,612	-85	4,382		15,272	-21,372	78,839
Transfer							-4 981	4,981	
Acquisition of own shares		0	0	-23	0		0	0	-23
Decrease due acquisition of subsidiary								-63	-63
Net profit for 2003		0	0	0	0		0	16,033	16,033
Capital and reserves at 31 December 2003	16	54,030	26,612	-108	4,382		10,291	-421	94,786
Capital and reserves at 1 January 2004	16	54,030	26,612	-108	4,382		10,291	-421	94,786
Transfer					460		2,000	-2,460	
Dividends								-5,403	-5,403
Revaluation of buildings						4,246			4,246
Increase due acquisition of subsidiary		175	634					-219	590
Net profit for 2004		0	0	0	0	0	0	19,066	19,066
Capital and reserves at 31 December 2004	16	54,205	27,246	-108	4,842	4,246	12,291	10,563	113,285

## Cash flow statement

Litas'000	2004	2003
Net result	19,066	16,033
Adjustments for:		
Depreciation and amortisation	24,080	22,413
Amortisation of negative goodwill	-131	-1,280
Amortisation of grants	-2,114	-838
Minority interest	-	1,033
Result of disposal of fixed assets and investments	-4,422	512
Change in impairment provision for fixed assets	933	636
Change in provision for slow moving inventories	-5,269	-2,051
Change in provision for doubtful receivables	122	7
Change in vacation reserve	1,426	83
Positive currency exchange gain	-343	-295
Interest expense, net	3,222	3,651
Profit tax expense	2,380	1,895
Net cash inflow from ordinary activities before any change in working capital	38,950	41,799
Change in trade and other receivables	-14,337	1,292
Change in inventories	1,766	1,827
Change in trade creditors and other creditors	-1,121	-7,819
Net cash inflow from ordinary activities	25,258	37,099
Net interest received / paid	-3,222	-3,651
Profit tax paid/	-1,895	0
<b>Net cash inflow from operating activities</b>	<b>20,141</b>	<b>33,448</b>
Sale (acquisition) of investments	4,220	150
Acquisition of shares in subsidiary undertakings	-11,413	-4,564
Capitalisation of intangible fixed assets	-702	-509
Acquisition of property, plant and equipment	-25,293	-36,172
<b>Net cash outflow from investing activities</b>	<b>-33,188</b>	<b>-41,095</b>
Shareholders:		
Issue (purchase) of shares	809	-23
Dividend paid	-5,403	0
Proceeds/payments of long-term and short-term borrowings	15,528	10,669
<b>Net cash inflow/(outflow) from financing, net</b>	<b>10,934</b>	<b>10,646</b>
<b>Net cash inflow/outflow from operating activities, investing activities and financing</b>	<b>-2,113</b>	<b>2,999</b>
Cash and cash equivalents at 1 January	6,156	3,157
<b>Cash and cash equivalents at 31 December</b>	<b>4,043</b>	<b>6,156</b>

## **Notes to the accounts**

### **1 Summary of significant accounting policies and practises**

AB Pieno Žvaigždės (the Company) is located in Vilnius, Lithuania. AB Pieno Žvaigždės was established by merging joint stock companies Mažeikių Pieninė, Pasvalio Sūrinė and Kauno Pienas into one company. AB Pieno Žvaigždės was officially registered on 28 December 1998. Activities started from 1 January 1999.

The Company is involved in the production and sales of milk products through distributors and directly to sales outlets.

The Company's consolidated financial statements for 2004 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). As at 31 December 2003 the Company held 64,2% shareholding of AB Panevežio Pienas. During 2004 the Company acquired the remaining 35,8% shares of AB Panevežio Pienas. As of 30 November 2004 AB Panevežio Pienas was merged to AB Pieno Žvaigždės.

The Company is located in Vilnius and the branches - in Mažeikiai, Pasvalys, Kaunas and Panevėžys. The branch in Mažeikiai has divisions in Akmenė and Skuodas.

The Company's shares are traded on the Official List of Vilnius Stock Exchange.

### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

### **Basis of preparation**

The consolidated financial statements are presented in Litas, rounded to the nearest thousand. The accounting policies of the Company as set out below are consistent with those of the preceding year.

### **Basis of consolidation**

#### **(i) Subsidiaries**

The Group accounts for 2003 comprise AB Pieno Žvaigždės, the parent company, and a subsidiary AB Panevežio Pienas where AB Pieno Žvaigždės controls more than 50% of voting rights. During 2004 AB Panevežio Pienas was merged to AB Pieno žvaigždės.

## **Notes to the accounts**

Subsidiaries are the enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the control effectively commences until the date that control effectively ceases.

### **(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated when preparing the consolidated financial statements.

## **Foreign currency**

### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated into Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the values were determined.

## **Balance sheet**

### **Property, plant and equipment**

Items of property, plant and equipment acquired on or after 1 January 1996 are stated at cost, less accumulated depreciation and impairment losses. Items of property, plant and equipment acquired before 1 January 1996 are stated at cost less accumulated depreciation and adjusted for indexation, using indexation rates set by the Lithuanian Government for different categories of assets. The cost of self-constructed assets includes the cost of materials, direct labour cost and an appropriate proportion of production overheads.

The Company revaluated the real estate as at 31 December 2004 and recorded a revaluation reserve amounting to 4,246 tLitas.

## **Notes to the accounts**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major capital repairs expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

- Buildings and constructions            20 - 40 years
- Plant and machinery                    10 - 12 years
- Vehicles and other assets                4 - 78 years

Assets with the cost of less than Litass 1,000 and useful life less than 1 year are expensed in the year of acquisition.

### **Intangible fixed assets**

#### ***Goodwill and negative goodwill***

Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries as a difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Positive goodwill is stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy Impairment).

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets.

Positive and negative goodwill recognised by the Company refers to the acquisition of the subsidiary AB Panevėžio Pienas. The goodwill is amortised over 5 years.

## **Notes to the accounts**

Goodwill incurred due to acquisitions after 31 March 2004 is not amortised but tested on impairment at the year-end.

### ***Other intangible asset***

Other intangible assets (comprising computer software) that are acquired by the Company are stated at cost less accumulated amortisation. Computer software is amortised using the straight-line method over a 1 - 3 years period.

### **Investments**

Investments held by the Company are classified as being available-for-sale under non-current assets and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

Available-for-sale investments are recognised/derecognised by the Company on the date it commits to purchase/sell the investments.

### **Inventories**

Inventories are stated at a lower cost or net realisable value. Cost is determined by the FIFO method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the selling expenses. Provision is made for slow moving or obsolete inventories.

### **Trade and other receivables**

Trade receivables are carried at nominal value less provision for anticipated losses. An estimate is made for doubtful and hopeless receivables based on the review of all outstanding amounts at the year end.

### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and call deposits.



## **Notes to the accounts**

### **Impairment**

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### **Calculation of recoverable amount**

The recoverable amount is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **Repurchase of own shares**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as own shares and presented as a deduction from the total equity. Any gain or loss resulting from disposal of own shares is recognised directly in equity.

### **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

### **Grants**

Grants received relating to the acquisition of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Grants received as a compensation of expenses are recognised as income in the same period as the compensated expenditures.

## **Notes to the accounts**

### **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

## **Profit and loss account**

### **Revenue**

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement where delivery has been effected by the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

### **Production costs**

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs of imported products include the purchase price, transportation costs and customs cost.

### **Tax on result for the period**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

## **Notes to the accounts**

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Use of estimates in preparation of financial statements**

The preparation of the financial statements in accordance with IFRS requires from the management to make judgements, estimates and assumptions that affect on the disclosure of reported amounts of assets and liabilities, income and expenses as well as contingencies. The material areas of this financial reporting, in which the estimates are applied, include depreciation, impairment on bad receivable and other assets. Future events may change the assumptions, based on which the estimates were made. The result of changes in the mentioned estimates will be recognised in the financial statements when determined.

### **Related parties**

Parties are considered as related provided one party has a possibility to control the other or make a significant influence on its financial and operating decisions. In these financial statements related parties are subsidiaries and associates of the Company, the management, shareholders and their family members.

### **Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed in the accounts, except for cases when it is little probability that resources generating economic benefits will be lost.

Contingent assets are not recognised in the financial statements, but disclosed when it is probable that income or economic benefits will be received.

## **Notes to the accounts**

### **Post balance sheet events**

Postbalance sheet events providing additional information on the company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Postbalance sheet events, which are not adjusting events, are described in notes, when material.

### **Segment reporting**

A segment is a distinguishable component of the Company that is engaged in either providing products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### **Comparative figures**

Comparative figures were adjusted, where necessary, to maintain the consistency and matching principles in preparation of financial statements.

### **Financial risk management**

The Company is operating in the international markets, thus is exposed to foreign exchange and liquidity risks. The Company is also trading with a number of small buyers, therefore faces increased credit risk. Methods used to manage these risks can be described as follows:

#### ***Credit risk***

Credit risks, or the risk of counter-parties default, are controlled by application of credit terms and monitoring procedures. The Company has no significant concentration of credit risk with any single counterparty or group of counter-parties.

#### ***Foreign exchange risk***

Part of the Company's transactions are denominated in USD, therefore the Company is exposed to foreign currency exchange risk. The Company has loans in foreign currencies. The Company puts effort that the new agreements prescribe settlement in EUR.

EUR is pegged to Lithuanian LTL at the exchange rate 3,4528 LTL/EUR.

## **Notes to the accounts**

### ***Liquidity risk***

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities.

### ***Interest rate risk***

The Company does not have any assets generating significant interest. The Company's policy is to maintain a diversified loan portfolio. Segregation between fixed and variable interest rates depends on the situation in the market.

## **Cash flow statement**

The cash flow statement shows the company's inflows and outflows of cash during the period as well as the financial position at the end of the year. The cash flow is related to three major areas: operating activities, investing activities and financing.

The cash flow statement is drawn up in such a manner that net cash inflow/(outflow) from operating activities is presented indirectly based on operating income and charges in the profit and loss account.

**Cash and cash equivalents** include cash at bank and in hand and short-term securities stated under current assets.

**Net cash inflow/(outflow) from operating activities** is calculated as the result of ordinary activities adjusted for non-cash operating items with the addition of an increase in, or reduction of, the working capital, net interest receivable or payable and extraordinary items and less corporation tax paid.

**Working capital** comprises current assets, excluding items included in cash and cash equivalents and short-term creditors, excluding bank loans, mortgage debt, taxation and dividends. Therefore, cash at bank and in hand and any securities stated under current assets are not included.

**Net cash outflow/(inflow) from investing activities** comprises acquisitions and disposals of fixed assets.

Additions are stated at cost. Disposals are stated at a sales price less related expenses.

**Net cash inflow/(outflow) from financing** comprises payments to and from shareholders as well as receipts from and repayment of mortgage debt and other long-term and short-term creditors not included under the working capital.

## Notes to the accounts

### 2 Segment reporting

The Company's only business segment (basis for primary reporting format) include production of cheeses and milk products.

The segment information is presented in respect of the Company's geographical segments (secondary reporting format). The majority of the Company's sales are in the domestic market, Eastern Europe. All the Company's assets are located in the country, where it is domiciled.

Revenues, total assets and capital expenditure by geographical segments are as follows:

#### Secondary segments

	Sales		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003
LTL'000						
Lithuania	235,296	250,369	234,706	227,829	159,943	150,185
Russia	89,691	67,484	0	0	0	0
Latvia	23,425	5,532	0	0	0	0
Germany	13,511	6,086	0	0	0	0
The Netherlands	13,016	3,372	0	0	0	0
Estonia	8,354	4,248	0	0	0	0
Other countries	14,219	33,534	0	0	0	0
	<u>397,512</u>	<u>367,625</u>	<u>234,706</u>	<u>227,829</u>	<u>159,943</u>	<u>150,185</u>

### 3 Acquisition and disposal of subsidiaries

The acquisitions and disposal had the following effect on the Group's net assets and liabilities:

	2004	2003
LTL'000		
Net identifiable assets and liabilities	Acquisition	Acquisition
Ownership	31,868	29,781
	5%	14%
Proportion of identifiable net assets acquired/disposed	11,154	4,169
Goodwill (negative goodwill) on acquisition	194	448
Consideration paid/ received	11,348	4,617
Cash acquired / disposed	-129	-53
Net cash flows	<u>11,219</u>	<u>4,564</u>

## Notes to the accounts

	<u>2004</u>	<u>2003</u>
	Litas '000	Litas '000
<b>4 Operating costs</b>		
Salaries and social insurance	31,253	26,246
Marketing and advertising	12,008	11,594
Depreciation and amortisation	4,293	4,437
Fuel	4,745	4,122
Bad and doubtful receivable	578	580
Taxes, except for profit tax	3,107	2,668
Materials and spare parts	1,599	2,769
Transport	2,867	3,451
Packing	857	1,953
Telecommunication	1,282	1,315
Household expenses	885	877
Office supplies	1,189	97
Repairs	1,812	1,822
Insurance	461	406
Change in impairment provision for non-current assets and inventories	-1,426	636
Others	6,026	6,693
	<u>71,536</u>	<u>69,666</u>
<b>5 Other operating income</b>		
Rent and other services income	1,907	1,381
Gain/loss on sales of non-current assets	269	-512
VAT allowance	145	360
Amortisation of negative goodwill	130	1,280
Other	517	-152
<b>Other operating income and costs, net</b>	<u>2,968</u>	<u>2,357</u>

## Notes to the accounts

	2004	2003
	Litas '000	Litas '000
<b>6 Financial income</b>		
Foreign exchange gain,	4,153	-
Net profit from revaluation of foreign currencies	343	579
Interest income on bank deposits	52	44
Other	61	-
	4,609	623
<b>7 Financial expense</b>		
Interest expense on bank borrowings and leasing	-3,274	-3,695
Other	-185	-
	-3,459	-3,695
<b>8 Profit tax</b>		
Current tax	3,384	1,895
Tax correction for prior periods	0	0
Change in deferred taxation	-530	0
Tax for the period	2,854	1,895
The reconciliation of the effective tax rate is as follows:		
Result before taxes	21,920	18,961
Change in temporary differences	605	-3,218
Total permanent differences	-3,499	-3,110
Profit taxable at a rate of 15%	19,026	12,633
Profit tax expense	2,854	1,895



## Notes to the accounts

### 8 Profit tax (continued)

#### Deferred tax assets

Impairment of fixed assets	542	402
Provision for obsolete and slow-moving inventories	712	1,502
Provision for bad and doubtful debtors	616	598
Vacation accrual	258	519

Total deferred tax assets	2,128	3,021
Valuation allowance	-688	-2,701

<b>Deferred tax asset, net</b>	<b>1,440</b>	<b>320</b>
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#### Deferred tax liabilities

Difference in financial and tax depreciation	-274	-320
Revaluation of real estate	-636	-

<b>Deferred tax liability</b>	<b>-910</b>	<b>-320</b>
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<b>Net deferred tax asset</b>	<b>530</b>	<b>0</b>
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### 9 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The average number of ordinary shares reacquired by the Company is excluded from shares outstanding during the year.

	2004	2003
Net profit for the year	19,066	16,033
Weighted average number of shares in issue (thousand)	54,118	53,934
Basic earnings per share	0,35	0,30

The Company has no dilutive potential shares or convertibles. The diluted earnings per share are the same as basic earnings per share.

## Notes to the accounts

### 10 Property, plant and equipment

Litas'000	Land and buildings	Machinery and equipment	Other fixed assets	Construction in progress	Total
Cost at 1 January	65,622	164,830	28,148	12,568	271,168
Additions	5,448	15,611	39	9,156	30,254
Revaluation	4,246	-	-	-	4,246
Disposals and write offs	-139	-7,635	-2,872	-27	-10,673
Reclassifications	15,815	-27,622	20,295	-8,488	-
Cost at 31 December	90,992	145,184	45,610	13,209	294,995
Depreciation at 1 January	20,403	78,022	19,881	-	118,306
Depreciation for the year	5,256	14,487	3,693	-	23,436
Disposals and write offs	-80	-7,551	-2,668	-	-10,299
Reclassifications	3,638	-13,052	9,414	-	-
Depreciation at 31 December	29,217	71,906	30,320	-	131,443
Impairment at 1 January	555	-	-	2,122	2,677
Change for the year	-125	3,180	-	-2,122	933
Reclassifications	-	-	-	-	-
Impairment at 31 December	430	3,180	-	-	3,610
<b>Net book value at 31 December</b>	<b>61,345</b>	<b>70,098</b>	<b>15,290</b>	<b>13,209</b>	<b>159,942</b>
Net book value at 1 January	44,664	86,808	8,267	10,446	150,185

Depreciation has been allocated as follows:

	2004	2003
	Litas'000	Litas'000
Production cost	19,143	17,976
Operating cost	4,293	3,735
Total	<u>23,436</u>	<u>21,711</u>

## Notes to the accounts

### Impairment

There were changes in impairment as the Company started to use part of the building, on which the impairment was established as at 31 December 2003.

Due to not used cheese production equipment an impairment was established on machinery and equipment based on the valuator's reports.

An impairment on construction in progress was recovered as the Company started to use the assets

### Pledges

As at 31 December 2004 buildings and equipment by the book value of 62,168 tLitas (2003: 40,203tLitas ) are pledged to secure bank loans (refer to note 18).

### 11 Intangible fixed assets

	Goodwill	Negative goodwill	Software, etc.	Total
Cost at 1 January	448	-393	3,768	3,823
Additions during the period	194	-	702	896
Written off	-307	393	-3	83
Cost at 31 December	355	0	4,467	4,822
Amortisation at 1 January	45	0	1,811	1,856
Amortisation for the period	262	-393	644	513
Depreciation of written-off assets	-307	393	-3	83
Amortisation at 31 December	0	0	2,452	2,452
<b>Net book value at 31 December</b>	<b>335</b>	<b>0</b>	<b>2,035</b>	<b>2,370</b>
Net book value at 1 January	403	-393	1,957	1,967

Amortisation is included under operating expenses, except for amortisation of goodwill that is included in other operating expenses.

## Notes to the accounts

	2004	2003
	Litas'000	Litas'000
<b>12 Inventories</b>		
Raw materials	13,642	13,876
Work in progress	46	15
Finished goods	26,261	26,070
Fixed assets for resale	5,211	6,877
Others	-	87
	45,159	46,925
Provision for obsolete and slow moving inventories	-4,746	-10,015
<b>Net book value at 31 December</b>	<b>40,413</b>	<b>36,910</b>
At 31 December 2004, inventories up to the carrying amount of 23,330 tLitas (2003: 13,000 tLitas) are pledged to secure bank loans (refer to Note 18).		
<b>13 Trade receivables</b>		
Gross trade receivables	33,821	28,543
Other receivable amounts	484	2,127
	34,669	30,670
Provision for bad and doubtful debtors	-4,108	-3,986
<b>Net book value at 31 December</b>	<b>30,561</b>	<b>26,684</b>
<b>14 Other receivables</b>		
Prepayments	2,663	4,906
Grants receivable	12,384	-
Deferred charges	383	321
<b>Net book value at 31 December</b>	<b>15,430</b>	<b>5,227</b>

Grants receivable include a receivable from the National Settlement Agency for exported cheese as to export licenses. As at 31 December 2004 the National Settlement Agency confirmed the export licenses at 3,493 tLitas. The remaining amount of 8,891 tLitas is still under examination regarding compliance to terms and conditions stated in the license.

## Notes to the accounts

	2004	2003
	Litas'000	Litas'000
<b>15 Cash and cash equivalents</b>		
Cash at bank	3,448	5,995
Cash in hand	595	161
<b>Cash and cash equivalents at 31 December</b>	<u>4,043</u>	<u>6,156</u>

At 31 December 2004, cash in bank accounts of 4,842 tLitas ( 2003: 4,842 tLitas) is pledged to secure bank loans (refer to Note 18).

At 31 December 2004, cash in the bank account of 80 tLitas (2003: 80 tLitas) is pledged to secure the bank guarantee issued to the National Settlement Agency.

## 16 Capital and reserves

### Share capital

The share capital comprises 54,205 thousand ordinary shares with a nominal value of Litass 1 each and the total share capital of 54,205 tLitas.

### Reacquired own shares

Acquisition and disposal of the own shares could be specified as follows:

	Number of shares, thousand	Own shares, 000'Litas
At 1 January	108	108
Acquired own shares in the market	-	-
At 31 December	<u>108</u>	<u>108</u>

### Legal reserve

The legal reserve in the amount of 4,842 tLitas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the retained earnings available for distribution are required until the legal reserve and the share premium reach 10% of the authorised capital. The legal reserve can only be used to cover future losses.

## Notes to the accounts

### Revaluation reserve

The real estate revaluation reserve is stated at 4,246 tLitas and relates to revaluation of buildings as at 31 December 2004. The reserve will be decreased in proportion to depreciation and disposal of the revaluated real estate.

### Other reserves

The other reserves in the amount of 11,291 tLitas relate to the investment tax relief used by the Company. When calculating profit tax, the company applied a relief regarding the net investment into tangible non-current assets. The reserve can be used to cover future losses.

The other part of the reserve amounting to 1,000 tLitas is allocated for acquisition of own shares. This reserve shall be accounted for during execution of the purchase of own shares by the Company.

<b>17 Deferred grants</b>	<u>Deferred grants</u>
Grants at 1 January	5,804
Additions during the period	4,338
Grants at 31 December	<u>10,142</u>
Amortisation at 1 January	838
Amortisation for the period	2,114
Amortisation at 31 December	<u>2,952</u>
<b>Net book value at 31 December</b>	<u>7,190</u>
Net book value at 1 January	<u>4,966</u>

Deferred grants comprise a grant as to SAPARD project for the modernisation of the cheese factory facilities.

Deferred grants are amortised over the same period as the granted machinery and other assets. Amortisation of grants is included in production cost against depreciation of granted machinery and improvements and compensated expenditure.

## Notes to the accounts

	<u>2004</u>	<u>2003</u>
	Litas'000	Litas'000
<b>18 Long-term and short-term loans</b>		
<b>Non-current liabilities</b>		
Long-term loans	49,050	42,779
Financial leasing	12,592	7,120
<b>Net book value at 31 December</b>	<u>61,642</u>	<u>49,899</u>
<b>Current liabilities</b>		
Current part of long-term loans	11,038	21,922
Short-term loans	17,426	5,303
Financial leasing	3,913	1,775
<b>Net book value at 31 December</b>	<u>32,377</u>	<u>29,000</u>

### Terms and repayment schedule of non-current loans (except for financial leasing liability)

	<u>2004</u>	<u>2003</u>
	Litas'000	Litas'000
Between 1 to 2 years	16,395	36,290
Between 2 to 5 years	32,655	6,489
More than 5 years	-	-
<b>Total</b>	<u>49,050</u>	<u>42,779</u>

### Financial lease liabilities

Financial lease liabilities - minimum lease payments:

Between 1 to 2 years	3,913	2,110
Between 2 to 5 years	13,323	7,013
More than 5 years	692	1,071
	<u>17,928</u>	<u>10,194</u>
Contingent interest	-1,424	-1,299
Present value of financial lease liabilities	<u>16,504</u>	<u>8,895</u>

## Notes to the accounts

Under the terms of the lease agreements, no contingent rents are payable.

	2004	2003
	%	%
<b>Interest rates on financial liabilities</b>		
Long-term loans	3.5 - 4.7	3.6 - 4.5
Short-term loans	4.2 - 4.5	2.8 - 7.0
Financial lease liabilities	3.1 - 5.0	3.3 - 4.9

	2004	2003
	Litas'000	Litas'000
<b>19 Other creditors</b>		
Vacation reserve	5,092	3,460
Profit tax payable	2,910	1,895
Taxes and social security payable	2,247	2,554
Salaries payable	1,708	1,872
Prepayments	838	454
Other accrued costs	797	329
<b>Net book value at 31 December</b>	13,592	10,564

## 20 Contingencies

At 31 December 2004 the following items are pledged to secure bank loans:

- property, plant and equipment with a carrying amount of 62,168 tLitas (2003: 40,203 tLitas),
- inventories up to the carrying amount of 23,330 tLitas (2003: 13,000 tLitas ),
- cash inflows in bank accounts of 4,842 tLitas (2003 m.: 4,842 tLitas ).
- right for land rent,
- 3,877 thousand shares of AB Pieno Žvaigždės.

As at 31 December 2004 cash at bank of 80 tLitas (2003: 80 tLitas ) are pledged to secure the bank guarantee issued to the national Settlement Agency.

## 21 Correction of fundamental error

The Company established an impairment allowance for non-current assets held for re-sale with the book value of 6,877 tLitas as at 31 December 2002. The Company did not find the purchaser for the assets and therefore the mentioned assets were evaluated at the lower of cost or net realisable value. As a result of that, the balance of retained earnings as at 1 January 2003 was adjusted.



## Notes without reference

	<u>2004</u>	<u>2003</u>
	LTL'000	LTL'000
<b>21 Staff costs</b>		
Production costs	32,675	34,376
Operating expenses	31,253	26,246
	<u>63,928</u>	<u>60,622</u>

Staff costs include wages and salaries and emoluments for the management of 2,146 tLitas (2003: 1,998 tLitas ).

At the end of 2004 The Group had 2,882 employees (2003: 2,910 employees ).

### **22 Related party transactions**

The Group has a related party relationship with its management and the Board members.

The remuneration of the management is presented in the note "Staff costs".

As to the management there are no other significant transactions with the related parties.

### **23 Post balance sheet events**

There were no significant events occurring between the end of the financial year and the issue of the financial statements