

AB Pieno Žvaigždės

Financial statements for 2005

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Company details

AB Pieno Žvaigždės

Telephone: +370 5 246 1414
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Company code: 124665536
Registered: Laisvės pr. 125, Vilnius, Lithuania

Board of directors

Julius Kvaraciejus, Chairman
Virginijus Jankauskas
Voldemaras Klovas
Aleksandr Smagin
Valentinas Paura
Kristina Mileiko
Regina Kvaraciejienė
Kjell Lennart Carlsson
Hans Mideus
Paul Bergqvist

Management

Aleksandr Smagin, General director

Auditor

KPMG Baltics, UAB

Banks

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

Annual report

The Board of Directors and the Management have today discussed and authorized for issue the financial statements and the annual report.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the financial statements give a true and fair view.

We recommend the financial statements to be approved at the Annual General Meeting.

Vilnius, 31 March 2006

Management:

Aleksandr Smagin
General director

Report of the auditor to the shareholders of AB Pieno Žvaigždės

We have audited the accompanying balance sheet of AB Pieno Žvaigždės (“the Company”) as at 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended.

These financial statements, as set out on pages 4 to 36, are the responsibility of the management. 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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of AB Pieno Žvaigždės as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

In accordance with the Lithuanian legislation, a report on the Company’s activities is presented separately from the annual financial statements. It is our additional responsibility to report concerning the consistency of the report on the Company’s activities with the audited financial statements. We reviewed the report on the Company’s activities for the year 2005 and issued a separate review report dated 31 March 2006 in which we stated that no inconsistencies with the financial statements came to our attention.

Klaipėda, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
ACCA and Lithuanian
Certified Auditor

Income statement

For the year ended 31 December 2005

Thousand Lit	Note	2005	2004
Revenue	1	446 331	397 512
Cost of sales		(354 816)	(308 174)
Gross profit		91 515	89 338
Other operating income, net	2	889	2 968
Sales and administrative expenses	3	(69 311)	(78 378)
Operating profit before financing costs		23 093	13 928
Financial income	4	261	4 609
Financial expenses	5	(4 953)	(3 459)
Financial income/expenses, net		(4 692)	1 150
Profit before tax		18 401	15 078
Corporate income tax	6	(3 107)	(1 054)
Profit for the year		15 294	14 024
Basic earnings per share (Litas)	7	0.28	0.26
Diluted earnings per share (Litas)	7	0.28	0.26

The notes, set out on pages 8 to 36, are an integral part of these financial statements.

Balance sheet

As at 31 December 2005

Thousand Lit	Notes	2005	2004
Assets			
Property, plant and equipment	8	176 371	154 233
Intangible assets	9	2 155	2 370
Investments available for sale	10	350	447
Long-term receivables		663	321
Deferred tax	17	1 670	1 600
Total non-current assets		181 209	158 971
Inventories	11	39 053	39 830
Receivables	12	55 482	45 991
Cash and cash equivalents	13	4 844	4 043
Total current assets		99 379	89 864
Total assets		280 588	248 835
Equity			
Share capital		54 205	54 205
Share premium		27 246	27 246
Own shares		(1 108)	(108)
Reserves		20 805	21 199
Retained earnings		13 119	5 521
Total equity	14	114 267	108 063
Liabilities			
Subsidies	15	5 116	7 190
Interest-bearing loans and borrowings	16	96 877	61 642
Total non-current liabilities		101 993	68 832
Interest-bearing loans and borrowings	16	24 273	32 377
Income tax payable	6	816	2 910
Trade and other amounts payable	18	39 239	36 653
Total current liabilities		64 328	71 940
Total liabilities		166 321	140 772
Total equity and liabilities		280 588	248 835

The notes, set out on pages 8 to 36, are an integral part of the financial statements.

Cash flow statement

For the year ended 31 December 2005

Thousand Lit

	Note	2005	2004
Cash flows from operating activities			
Profit before tax		18 401	15 078
Adjustments:			
Depreciation and amortisation	8, 9	29 477	23 949
Amortisation of subsidies	9	(2 074)	(2 114)
Result of disposal of property, plant and equipment	4	(50)	(4 422)
Change in impairment loss of non-current assets and inventories		0	5 416
Change in impairment loss of trade receivables		79	122
Change in vacation reserve		(407)	1 426
Unrealised gain/loss on foreign currency exchange		898	(343)
Interest expenses, net	6	3 836	3 222
Cash flows from ordinary activities before changes in the working capital		50 160	42 334
Change in inventories		777	(1 618)
Change in receivables		(11 837)	(14 337)
Change in trade and other payable amounts		(232)	(1 121)
Cash flows from operating activities		38 868	25 258
Paid / received interest, net		(3 836)	(3 222)
Income tax paid		(3 246)	(1 895)
Net cash flow from operating activities		31 786	20 141
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	(16 027)	(25 293)
Acquisition of intangible assets	9	(617)	(702)
Proceeds on sale of property, plant and equipment		1 235	4 220
Acquisition of shares of subsidiary undertaking	23	0	(11 413)
Proceeds on disposal of investments held for sale		22	0
Net cash flow from investing activities		(15 387)	(33 188)
Cash flows from financing activities			
Loans received		14 521	23 297
Repayment of borrowings		(8 501)	(5 244)
Issue (redemption) of shares		(1 000)	809
Dividends paid		(8 115)	(5 403)
Payment of finance lease liabilities		(12 503)	(2 525)
Net cash from financing activities		(15 598)	10 934
Change in cash and cash equivalents		801	(2 113)
Cash and cash equivalents at 1 January		4 043	6 156
Cash and cash equivalents at 31 December		4 844	4 043

The notes, set out on pages 8 to 36, are an integral part of the financial statements.

Statement on changes in equity

Thousand Lit	Note	Share capital	Share premium	Own shares	Compulsory reserve	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2004		54 030	26 612	(108)	4 382	0	10 291	(421)	94 786
Profit allocation					460		2 000	(2 460)	0
Dividends								(5 403)	(5 403)
Revaluation of real estate						4 066			4 066
Increase due to merger of subsidiary		175	634					(219)	590
Net profit for 2004								14 024	14 024
As at 31 December 2004		54 205	27 246	(108)	4 842	4 066	12 291	5 521	108 063
As at 1 January 2005		54 205	27 246	(108)	4 842	4 066	12 291	5 521	108 063
Profit allocation					578		(800)	222	0
Dividends								(8 115)	(8 115)
Depreciation of property revaluation						(172)		197	25
Acquisition of own shares				(1 000)					(1 000)
Net profit for 2005								15 294	15 294
As at 31 December 2005	14	54 205	27 246	(1 108)	5 420	3 894	11 491	13 119	114 267

The notes, set out on pages 8 to 36, are an integral part of the financial statements.

Notes to financial statements

Significant accounting policies

The head office of AB Pieno Žvaigždės (“the Company”) is located in Vilnius, Lithuania. AB Pieno Žvaigždės was established by way of merger of stock companies Mažeikių Pieninė, Pasvalio Sūrinė and Kauno Pienas.

As at 31 December 2003 the Company owned 64,2% shares of the subsidiary AB Panevėžio Pienas. During the year 2004 the Company acquired the remaining shares of AB Panevėžio Pienas. As of 30 November 2004 AB Panevėžio Pienas was merged to AB Pieno Žvaigždės and acquired the status of a branch.

The main office of the company is located in Vilnius and the branches – in Mažeikiai, Pasvalys, Kaunas and Panevėžys. The Mažeikiai branch has divisions in Akmenė and Skuodas.

Ordinary shares of the Company are quoted in the Vilnius Stock Exchange.

The shareholders structure as at 31 December 2005 is as follows:

	Shares	Ownership in %
Management of AB Pieno Žvaigždės:		
Julius Kvaraciejus	5 391 492	9,95%
Aleksandr Smagin	2 508 823	4,63%
Voldemaras Klovas	2 170 248	4,00%
Regina Kvaraciejienė	1 848 589	3,41%
Virginijus Jankauskas	1 140 431	2,10%
Kristina Mileiko	280 013	0,52%
Valentinas Paura	82 431	0,15%
Total shares owned by the management of AB Pieno Žvaigždės	13 422 027	24,76%
Clients of Skandinaviska Enskilda Banken	10 092 556	18,62%
Agrolitas Imeks Lesma, UAB	5 569 733	10,28%
Swedfund International AB	4 700 000	8,67%
Smilgelė, ŽŪKB	3 985 261	7,35%
AB Pieno Žvaigždės	307 511	0,57%
Other	16 127 943	29,75%
	<u>54 205 031</u>	<u>100%</u>

The Company is engaged in production and sales of milk products to retail stores directly and through distributors.

As at 31 December 2005 the Company had 2 732 employees (2004: 2 882 employees).

The financial statements were approved by the Board on 31 March 2006.

Notes to financial statements

Statement of compliance

These are the financial statements of a separate company AB Pieno Žvaigždės, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and the Regulations of IAS (EB 1606/2002).

Basis of preparation

The financial statements are presented in Litas, and are prepared on the historical cost basis, except for investments which are stated at fair value and non-current assets for sale which are carried at the lower of carrying amount and fair value less anticipated sales costs.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

The accounting policies of the Company, set out below, have been applied consistently to all periods presented in these financial statements, except for those which changed due to changes in previously valid IFRS and the new IFRS effective as of 1 January 2005, as stated in note 2.

Derivative financial instruments

The Company does not use any derivative financial instruments nor maintain any risk hedging accounting.

Notes to financial statements

Foreign currency

Transactions in foreign currencies are translated 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 to 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. 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 fair value was determined. The Company's transactions are accounted for in Litas.

Property, plant and equipment

Owned assets

Property, plant and equipment (except for buildings) are stated at cost less accumulated depreciation and impairment losses. Buildings are stated at a revaluated value less accumulated depreciation and impairment losses.

The Company carried out the revaluation of buildings as at 31 December 2004. An increase in the value of the buildings amounted to 4 066 tLTL net of deferred tax and was recorded under the revaluation reserve as at 31 December 2004. A decrease in the value of the buildings amounted to 8 605 tLTL and was recorded under operating costs in the income statement for 2004.

Cost of self-constructed property, plant and equipment includes costs related to materials and direct labour costs as well as related indirect costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over the expected useful lifetime.

Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets used by way of finance lease are recognised as assets of the company and are stated at the lower of their fair value in the beginning of the lease and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Notes to financial statements

Subsequent expenditure

Costs incurred when replacing a component part of an item of property, plant and equipment are capitalised only upon write-off of the carrying amount of the component and if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the component part can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 20 - 40 years
- machinery and equipment 10 - 12 years
- transport vehicles and other assets 4 - 20 years

Intangible assets

Intangible assets acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Costs related to internally generated goodwill and trade marks are recognised in the income statement as costs when incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are 1 – 3 years.

Goodwill

Goodwill (positive and negative) represents the difference between the acquisition cost of the subsidiary and the fair value of the net assets acquired. Positive goodwill is stated at cost less impairment losses.

The amount of positive goodwill, accounted for by the Company, relates to the acquired and then merged company AB Panevėžio Pienas.

Notes to financial statements

Financial instruments

Investments in debt and equity securities

Investments in equity securities, except for investments in subsidiary undertakings and associated companies, are classified as available-for-sale and at initial recognition are stated at fair value plus the related direct costs. Subsequently the investments are revaluated to fair value carrying the gain or loss on their revaluation directly under equity, except for impairment losses which are included in the income statement if the management has no intention to sell these investments during the period of 12 months after the balance sheet date. When the investments are sold, the accrued gain or loss previously recognised under equity, is recognised in the income statement.

The fair value of financial instruments classified as held for trading is their quoted price at the balance sheet date.

Financial instruments classified as held for trading are recognised / derecognised by the Company on the date it commits to purchase / sell the instruments.

Other financial instruments

Loans and receivables of the Company are not attributed to derivative financial instruments. Receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to financial statements

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 or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to financial statements

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Repurchase of share capital

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 treasury shares and presented as a deduction from total equity.

Dividends

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

Revenue

Goods sold and services rendered

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. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods exists or where substantial risks and rewards can not be considered as transferred to the buyer.

Notes to financial statements

Subsidies

A subsidy is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Subsidies intended to compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Subsidies that compensate the Company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in 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 financial statements

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 following temporary differences are not provided for: for initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 substantively 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in 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.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods but which the Company has not early adopted, as follows:

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Company does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Company.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company has not classified any instruments as at fair value through profit and loss.

Notes to financial statements

– IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Company.

– IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Company's operations. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations.

Change in accounting policies

Adoption of standards effective from 1 January 2005

As of 1 January 2005, the Company adopted the IFRSs below, which are relevant to its operations. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 1 (revised 2003 and amended March 2004), *Presentation of Financial Statements*
- IAS 2 (revised 2003), *Inventories*
- IAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 10 (revised 2003 and amended March 2004), *Events after the Balance Sheet Date*
- IAS 16 (revised 2003 and amended March 2004), *Property, Plant and Equipment*
- IAS 17 (revised 2003 and amended March 2004), *Leases*
- IAS 24 (revised 2003), *Related Party Disclosures*
- IAS 27 (revised 2003 and amended March 2004), *Consolidated and Separate Financial Statements*
- IAS 28 (revised 2003 and amended March 2004), *Investments in Associates*
- IAS 33 (revised 2003 and amended March 2004), *Earnings per Share*
- IAS 36 (revised 2004), *Impairment of Assets*
- IAS 38 (revised 2004), *Intangible Assets*
- IAS 39 (revised 2004), *Financial instruments: recognition and measurement*
- IFRS 2 (approved 2004), *Share based payments*
- IFRS 3 (approved 2004), *Business combinations*
- IFRS 5 (approved 2004), *Non-current assets available for sale and termination of activity*

The Company adopted these standards, effective from 1 January 2005, retrospectively as of 1 January 2004.

Notes to financial statements

Below we provide the discussion of the impact of the new standards, applicable to the Company.

Financial instruments

In accordance with IAS 39 requirements, the Company has reviewed its financial instruments held at 1 January 2005 and has performed re-designation of these financial instruments into categories as defined by the revised IAS 39. The standard requires retrospective application. The Company's financial instruments were classified into the following categories:

-Equity securities were classified as available-for-sale instruments and measured at fair value with changes in fair value recognised in the shareholders' equity. There was no impact on net income or equity from this re-designation.

-All loans, receivables and deposits originated by the Company were classified as loans and receivables originated by the Company and measured at amortised cost. Current portion of loans and receivables originated by the Company was classified as current assets, based on remaining maturity at the balance sheet date. There was no impact on net income or equity from this re-designation.

Significant accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, reflecting the present situation and reasonable expectations of future events.

Significant accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Notes to financial statements

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Judgments

The Company has recognized deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits are probable.

Notes to financial statements

1. Segment reporting

The only business segment of the Company (as a primary reporting format) is production of milk products. Segment information is presented in respect of the Company's geographical segments (secondary segment reporting format).

In respect of the Company's geographical segments, segment income is recognised according to geographical location of clients. Segment assets are divided as to geographical location of the assets.

Results as to geographical segments for 2005 are as follows:

Thousand Lit	Lithuania	Russia	Latvia	Germany	Other countries	Total
Revenue	256 357	126 021	23 019	13 039	27 895	446 331
Segment result	54 543	29 421	4 521	425	2 605	91 515
Undistributed costs						(68 422)
Operating result						23 093
Financial items, net						(4 692)
Result before tax						18 401
Corporate income tax						(3 107)
Net result for the year						15 294
Segment receivables	24 964	11 498	1 241	36	988	38 727
Undistributed assets						241 861
Total assets						280 588
Undistributed liabilities						166 321
Cash flows from ordinary activity						
Undistributed cash flows from ordinary activity						31 786
Undistributed cash flows from investing activity						(15 387)
Undistributed cash flows from financing activity						(15 598)
Net cash flows						801
Undistributed acquisitions of non-current assets						53 444

Results as to geographical segments for 2004 are as follows:

Thousand Lit	Lithuania	Russia	Latvia	Germany	Other countries	Total
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Notes to financial statements

Revenue	<u>235 296</u>	<u>89 691</u>	<u>23 425</u>	<u>13 511</u>	<u>35 589</u>	<u>397 512</u>
Segment result	<u>54 205</u>	<u>21 422</u>	<u>5 018</u>	<u>1 815</u>	<u>6 878</u>	<u>89 338</u>
Undistributed costs						<u>(75 410)</u>
Operating result						13 928
Financial items, net						<u>1 150</u>
Result before tax						15 078
Corporate income tax						<u>(1 054)</u>
Net result for the year						<u>14 024</u>
Segment receivables	17 669	10 102	1 633	16	293	29 713
Undistributed assets						<u>219 122</u>
Total assets						<u>248 835</u>
Undistributed liabilities						<u>140 772</u>
Cash flows from ordinary activity						
Undistributed cash flows from ordinary activity						20 141
Undistributed cash flows from investing activity						<u>(33 188)</u>
Undistributed cash flows from financing activity						<u>10 934</u>
Net cash flows						<u>(2 113)</u>
Undistributed acquisitions of non-current assets						<u>37 271</u>

Notes to financial statements

2. Other operating income

Thousand Litas	2005	2004
Income from rent and other services	180	1 907
Gain on disposal of property, plant and equipment	159	269
VAT incentive		145
Other	550	647
	889	2 968

3. Sales and administrative costs

Thousand Litas	2005	2004
Staff costs	(31 218)	(31 253)
Marketing and advertising	(6 346)	(12 008)
Depreciation and amortisation	(6 092)	(4 293)
Fuel	(4 767)	(4 745)
Bad and doubtful receivables	(79)	(578)
Taxes, except income tax	(2 235)	(3 107)
Materials and spare parts	(1 118)	(1 599)
Transport	(682)	(2 867)
Packaging	(4)	(857)
Communications	(1 121)	(1 282)
Utilities	(1 519)	(885)
Office articles	(225)	(1 189)
Repair	(1 318)	(1 812)
Insurance	(224)	(461)
Change in impairment of non-current assets and inventories	152	(5 416)
Other	(12 515)	(6 026)
	(69 311)	(78 378)

4. Financial income

Thousand Litas	2005	2004
Gain from disposal of investments		4 153
Gain on foreign currency exchange		343
Interest income	52	52
Other	209	61
Total financial income	261	4 609

Notes to financial statements

5. Financial expenses

Thousand Litai	2005	2004
Interest on loans and leasing liabilities	(3 888)	(3 274)
Loss on foreign currency exchange	(923)	
Other	(142)	(185)
Total financial expenses	(4 953)	(3 459)
	(4 692)	1 150

6. Corporate income tax

Recognised in income statement

Thousand Litai	2005	2004
Income tax for the current year	(3 152)	(3 384)
Change in deferred tax	45	2 330
Total income tax recognised in the income statement	(3 107)	(1 054)

The deferred tax expenses, amounting to 705 tLTL, were recognised directly in equity in 2005 (2004: 730 tLTL). The mentioned deferred tax liability is related to revaluation of property, plant and equipment.

Reconciliation of the effective income tax rate is as follows:

Litai	2005		2004	
Result before tax		18 401		15 078
Income tax using prevailing tax rate	15,0%	2 760	15,0%	2 262
Change in vacation reserve	1,4%	252	1,7%	263
Write down of inventories	0,4%	69	0,5%	72
Change in impairment for non-current assets	0,2%	40	-9,2%	-1 386
Tantjems	0,2%	30	0,0%	-
Coverage of damage	0,1%	26	0,3%	47
Interest	0,1%	25	0,0%	-
Written off trade receivables	0,1%	13	0,6%	96
Withholding tax due to dividends paid	-0,8%	-145	-1,8%	-268
VAT incentive	0,0%	-	-0,1%	-22
Reversal of depreciation of formation cost	0,0%	-	-0,2%	-30
Other	0,2%	37	0,1%	20
	16,9%	3 107	7,0%	1 054

Notes to financial statements

7. Earnings per share ratio

Basic earnings per share is calculated dividing the net profit for the year by the average number of ordinary shares in issue during the year.

	2005	2004
Number of shares in issue calculated using weighted average method	54 205	54 118
Net profit for the year, in thousand Litas	15 294	14 024
Basic earnings per share, in Litas	0.28	0.26

Diluted earnings per share are the same as basic earnings per share.

8. Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
Balance at 1 January 2004	65 622	164 830	28 148	12 568	271 168
Acquisitions	5 448	15 611	6,140	9 156	36 355
Revaluation	4 796				4 796
Disposals	(139)	(7 635)	(2 872)	(27)	(10 673)
Re-classification	(1 683)	(10 124)	20 295	(8 488)	
Balance at 31 December 2004	74 044	162 682	51 711	13 209	301 646
Balance at 1 January 2005	74 044	162 682	51 711	13 209	301 646
Acquisitions		31 160	5 082	16 585	52 827
Revaluation					
Disposals		(2 511)	(2 172)	(796)	(5 479)
Re-classification	9 452	8 215	(856)	(16 811)	
Balance at 31 December 2005	83 496	199 546	53 765	12 187	348 994
Depreciation and impairment					
Balance at 1 January 2004	20 403	78 022	19 881		118 306
Depreciation for the year	5 256	14 487	3 693		23 436
Depreciation of disposals	(80)	(7 551)	(2 668)		(10 299)
Re-classification	(1 037)	(8 377)	9 414		
Balance at 31 December 2004	24 542	76 581	30 320		131 443
Balance at 1 January 2005	24 542	76 581	30 320		131 443
Depreciation for the year	1 678	21 710	5 260		28 648
Depreciation of disposals		(1 471)	(1 966)		(3 437)
Re-classification	(2 249)	2 236	13		
Balance at 31 December 2005	23 971	99 056	33 627		156 654
Impairment at 1 January	8 605	2 191	4 710	464	15 970
Change during the year					
Impairment at 31 December	8 605	2 191	4 710	464	15 970
Carrying amounts					
1 January 2004	44 664	86 808	8 267	10 446	150 185
31 December 2004	40 897	83 910	16 681	12 745	154 233
1 January 2005	40 897	83 910	16 681	12 745	154 233
31 December 2005	50 920	98 299	15 428	11 723	176 370

Notes to financial statements

Pledges

Property, plant and equipment with the carrying amount of 68 136 tLTL as at 31 December 2005 (2004: 61 168 tLTL) have been pledged to secure the bank loans (refer to note 16).

Leased assets

The Company has acquired machinery and equipment, transport vehicles and other assets by way of finance lease. The carrying amount of the assets acquired by way of finance lease amounted to 35 484 tLTL (2004: 19 690 tLTL) as at 31 December 2005. Finance lease liabilities are secured by the leased assets (refer to note 16).

Depreciation

Depreciation is included in the following items of the income statement:

Thousand Litas	2005	2004
Cost of sales	21 311	19 143
Sales and administrative expenses	6 092	4 293
	27 403	23 436

9. Intangible assets

Thousand Litas	Goodwill	Negative goodwill	Software, etc.	Total
Cost				
Balance at 1 January 2004	448	(393)	3 768	3 823
Acquisitions	194	-	722	916
Disposals	(307)	393	(3)	83
Balance at 31 December 2004	335	-	4 487	4 822
Balance at 1 January 2005	335	-	4 487	4 822
Acquisitions			617	617
Disposals			(62)	(62)
Balance at 31 December 2005	355		5 042	5 377
Amortisation and impairment				
Balance at 1 January 2004	45	-	1 811	1 856
Amortisation for the year	262	(393)	644	513
Amortisation of disposed assets	(307)	393	(3)	83
Balance at 31 December 2004	-	-	2 452	2 452
Balance at 1 January 2005	-	-	2 452	2 452
Amortisation for the year			829	829
Amortisation of disposed assets			(59)	(59)
Balance at 31 December 2005			3 222	3 222
Carrying amounts				
1 January 2004	403	(393)	1 957	1 967
31 December 2004	335	-	2 035	2 370
1 January 2005	335	-	2 035	2 370
31 December 2005	335		1 820	2 155

Amortisation is included in administrative expenses.

Notes to financial statements

10. Investments available for sale

Thousand Lit	2005	2004
Investments available for sale	350	447
	<u>350</u>	<u>447</u>

The major part of investments available for sale as at 31 December 2005 includes shares of UAB Kapitalo Srautai (15.3%). Due to the fact that the fair value of the mentioned shares cannot be reliably determined, they are stated at acquisition cost, which amounts to 200 tLTL.

11. Inventories

Thousand Lit	2005	2004
Raw materials	12 641	13 642
Work in progress	19 307	46
Finished goods	7 316	26 261
Goods for re-sale	94	338
	<u>39 358</u>	<u>40 287</u>
Impairment of slow-moving inventories	(305)	(457)
	<u>39 053</u>	<u>39 830</u>

Raw materials include milk and other materials used in production.

As at 31 December 2005 the Company did not have any inventories, recognised at fair value less sales costs.

Inventories recognised as costs during the year can be specified as follows:

Cost of sales (manufactured goods sold)	(354 816)	(308 174)
Sales and administrative expenses (consumption of inventories)	(10 016)	(8 295)
Other operating costs (sold goods for re-sale)	0	0
Other operating costs (sold raw materials, spare parts)	(428)	(1 559)
	<u>(365 260)</u>	<u>(318 028)</u>

Administrative expenses include a write down related to slow moving and obsolete inventories.

Other operating costs include cost of re-sold goods and cost of sold raw materials and other inventories.

Inventories with the carrying amount of up to 39 053 tLTL (2004: 23 330 tLTL) as at 31 December 2005 have been pledged to secure bank loans (refer to note 16).

Notes to financial statements

12. Receivables

Thousand Lit	2005	2004
Trade receivables	42 837	33 821
Receivable subsidies	12 996	12 384
Prepayments	2 826	2 663
Other receivables	933	1 231
	<u>59 592</u>	<u>50 099</u>
Impairment of doubtful trade receivables	(4 110)	(4 108)
	<u>55 482</u>	<u>45 991</u>

Receivable subsidies comprise amounts receivable from the National Settlement Agency for the cheese and other milk products exported as to export licenses. As at 31 December 2005 the National Settlement Agency confirmed the export licenses for an amount of 4 895 tLTL (2004: 3 493 tLTL), while the remaining amount of 8 101 tLTL (2004: 8 891 tLTL) is being checked for compliance with the terms and conditions stated in the license.

13. Cash and cash equivalents

Thousand Lit	2005	2004
Cash at bank	4 205	3 448
Cash in hand	639	595
	<u>4 844</u>	<u>4 043</u>

As at 31 December 2005 the Company had 1 tUSD in its current bank account and in hand.

As at 31 December 2005, cash at bank and cash inflows up to 2 240 tLTL (2004: 4 842 tLTL) have been pledged to secure the liabilities to the banks (refer to note 16).

Notes to financial statements

14. Share capital

As at 31 December 2005 the share capital comprised 54 205 thousand ordinary shares at par value of 1 Litas each.

Holders of ordinary shares have one voting right per share at the shareholders meeting and the right to dividends when they are announced, as well as the right to capital repayment in case of a decrease in share capital.

Own shares

The Company as at 31 December 2005 has repurchased 308 thousand own shares (2004: 108 thousand shares).

When own shares are purchased, the amount paid, including direct costs, is accounted for as a change in equity. The purchased own shares are stated deducting them from the total equity amount. Profit or loss from disposal of own shares is recognised in equity.

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can be used only for coverage of losses.

Revaluation reserve

As at 31 December 2004 the Company established a revaluation reserve of 4 066 tLTL, which is related to revaluation of buildings as at the mentioned date. The revaluation reserve was decreased by the deferred tax liability amounting to 730 tLTL. The reserve is decreased in proportion to depreciation and disposal of the revaluated assets. The decrease in reserve is recognised directly in equity.

Other reserves

Other reserves amount to 11 491 tLTL (2004: 12 291 tLTL).

Part of other reserves, amounting to 4 000 tLTL (2004: 1 000 tLTL), is allocated for acquisition of own shares. This reserve will be accounted for until the Company purchases its own shares.

Notes to financial statements

15. Subsidies

Thousand Lit	2005	2004
Subsidies as at 1 January	10 142	5 804
Increase during the period		4 338
Subsidies as at 31 December	10 142	10 142
Amortisation as at 1 January	2 952	838
Amortisation for the year	2 074	2 114
Amortisation as at 31 December	5 026	2 952
Net carrying amount at 31 December	5 116	7 190
Net carrying amount at 1 January	7 190	4 966

Subsidies comprise amounts received as to the SAPARD project for modernisation of equipment in the cheese factory.

Subsidies are amortised over the same period as the equipment and other assets for which the subsidies were received. The subsidy amount is included in the production costs as well as depreciation of machinery and equipment for which the subsidies were received.

16. Interest bearing loans and borrowings

The Company's loans and borrowings are as follows:

Credit institution	Ref.	Liability amount	Balance at 31 12 2005	Balance at 31 12 2004
AB Hansabankas	a)	21 578	21 578	22 206
AB SEB Vilniaus Bankas	b)	21 092	21 092	31 770
AB SEB Vilniaus Bankas	c)	25 000	14 521	-
AB Bankas Nord/LB Lietuva	d)	23 000	23 000	17 707
AB Bankas Nord/LB Lietuva	e)	4 000	2 052	3 562
AB Bankas Nord/LB Lietuva	f)	2 293	2 190	2 270
Leasing companies	g)	45 796	36 717	16 504
Total liabilities			121 150	94 019
Less: current part			(24 273)	(32 377)
Total non-current part			96 877	61 642

a) The loan is received for acquisition of new milk processing equipment. The loan is repayable in equal parts on a quarterly basis and shall be fully repaid by 31 December 2008. The loan is secured by pledging non-current assets of the branch Kauno Pienas.

b) The loan is received for acquisition of new milk processing equipment. The loan is repayable in equal parts on a quarterly basis and shall be fully repaid by 10 August 2010. The loan is secured by pledging non-current assets of the branch Pasvalio Sūrinė.

Notes to financial statements

c) The loan (overdraft) is received to finance the working capital needs. The loan shall be repaid by 10 August 2007. The Company has pledged its inventories to secure the mentioned loan.

d) The loan is received for acquisition of new milk processing equipment. The loan shall be repaid by 30 September 2008. The loan is secured by pledging non-current assets of the branch Mažeikių Pieninė.

e) The loan (overdraft) is received to finance the working capital needs. The loan shall be repaid by 30 August 2006. The loan is secured by pledging cash at bank.

f) The loan (overdraft) is received to finance the working capital needs. The loan shall be repaid by 31 March 2006. The loan is secured by pledging cash at bank.

g) Leasing liabilities comprise finance lease of transport vehicles and equipment.

The effective interest rate applied during the period varied from 3,1% to 4,5%.

For the loans granted the Company has pledged its non-current assets with the carrying amount of 68 136 tLTL (2004: 61 168 tLTL), inventories with the carrying amount of 39 053 tLTL (2004: 23 330 tLTL) and cash at bank and cash inflows up to 2 240 tLTL (2004: 4 842 tLTL) as at 31 December 2005.

Loan repayment schedules, except for finance lease liabilities

The loan repayment as to approved schedules will be carried out as follows:

Thousand Lit	2005	2004
Within 1 year	12 810	16 395
From 1 to 5 years	71 623	32 655
After 5 years	-	-
Present value of interest-bearing loans	84 433	49 050

Finance lease liabilities

Finance lease payments are as follows:

Thousand Lit	2005	2004
Within 1 year	12 827	3 913
From 1 to 5 years	26 900	13 323
After 5 years	-	692
	39 727	17 928
Future interest of finance lease	(3 010)	(1 424)
Present value of finance lease liabilities	36 717	16 504

The finance lease agreements do not prescribe any contingent lease payments.

Notes to financial statements

Interest rates

The following average interest rates are stated in the loan and finance lease agreements:

%	2005	2004
Long-term loans	3.6 – 3.8	3.5 – 4.7
Short-term loans	4.0 – 4.5	4.2 – 4.5
Finance lease	3.1 – 5.0	3.1 – 5.0

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities

The deferred tax asset and liabilities calculated applying a 19% tax rate (2004: 15%), are attributed to the following items:

Thousand Lit	Asset		Liabilities		Net value	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	(2 380)	(2 409)	917	1 023	(1 463)	(1 386)
Trade receivables						
Inventories	(46)	(34)			(46)	(34)
Accrued costs	(161)	(180)			(161)	(180)
Tax (asset) / liability	(2 587)	(2 623)	917	1 023	(1 670)	(1 600)

Difference between the tax basis and the carrying amount of property, plant and equipment in the financial statements, has occurred due to revaluation of the buildings and impairment of property, plant and equipment.

18. Trade and other payable amounts

Thousand Lit	2005	2004
Payable to suppliers	29 339	25 971
Vacation reserve	4 685	5 092
Taxes and social security contributions payable	2 226	2 247
Salaries payable	1 638	1 708
Other	1 351	1 635
	39 239	36 653

Notes to financial statements

19. Financial instruments

The credit, interest rate and foreign exchange risks arise in the course of the Company's activities carried out on normal business conditions.

Credit risk

The Company has established the credit policy and credit risk is being monitored on a continuous basis. The Company did not have any concentration of credit risk at the balance sheet date.

Foreign exchange risk

The Company is exposed to foreign currency exchange risk, related to sales, purchases and borrowings denominated in other currencies than Litas or Euro (Litas is pegged to Euro at a fixed exchange rate 3.4528 LTL / EUR).

As at 31 December 2005 foreign currencies position was as follows:

Thousand Litas	USD	RUB	EUR	GBP	DKK	LVL
Receivables	1		5 153			48
Cash			10			
Financial liabilities			(67 860)			
Trade payable amounts		(2)	(3 222)			
	1	(2)	(65 919)			48

Foreign currency positions are translated into Litas at an official exchange rate ruling at the balance sheet date. The USD/LTL exchange rate was 2,9102 LTL / USD as at 31 December 2005.

As at 31 December 2005 the Company had a foreign exchange swap deal whereby the Company obliges in the year 2006 to sell 2 000 000 USD for 1 624 168 EUR.

The mentioned financial instrument is not recognised at fair value in the financial statements as the estimated impact is not significant.

Interest rate risk

The Company's borrowings are subject to variable interest, related to LIBOR and varying from LIBOR+0.9% to LIBOR+1.6%.

As at 31 December 2005 the Company did not use any financial instruments to hedge its cash flows and interest rate risks.

Notes to financial statements

20. Contingencies and capital liabilities

The following assets have been pledged to secure the bank loans as at 31 December 2005:

- Property, plant and equipment with the carrying amount of 68 136 tLTL (2004: 61 168 tLTL),
- Inventories with the carrying amount up to 39 053 tLTL (2004: 23 330 tLTL),
- Cash amounting to 2 240 tLTL (2004: 4 842 tLTL) and cash inflows in the bank accounts,
- The land rent right.

21. Related parties

Transactions with related parties can be specified as follows:

Thousand Litas	2005		2004	
	Sales	Purchases	Sales	Purchases
ŽŪB Draugas		4 719		3 969
UAB Jansvis		1 827		0
		6 546		3 969

Thousand Litas	31 December 2005		31 December 2004	
	Receivable amounts	Payable amounts	Receivable amounts	Payable amounts
ŽŪB Draugas		0		0
UAB Jansvis		0		0
AB Pieno Žvaigždės management	4 400		4 400	
	4 400	0	4 400	0

Notes to financial statements

Remuneration to management is included under administrative expenses category “Staff costs” (refer to note 4):

Thousand Lit	2005	2004
Remuneration to management	2 017	1 842

22. Post balance sheet events

There were no significant events after the balance sheet date.

23. Acquisition of subsidiary undertakings

Thousand Lit	2005	2004
		Acquisition
Net assets of subsidiary	-	31 868
Share of net assets acquired	-	35%
Proportion of the acquired net assets	-	11 154
Goodwill at acquisition date	-	194
Paid	-	11 348
Cash of the subsidiary	-	(129)
	-	11 219

24. Corrections of errors

As at 31 December 2004 the Company revaluated its property in accordance with the values determined by the external valuers. Consequently, a revaluation reserve amounting to 4 246 tLTL as at 31 December 2004 was recognised.

However, in 2005 the Company found that the revaluation amount was determined inaccurately. The main reason for that was the incorrect carrying amounts of certain property items used in the determination of revaluation result.

Therefore, the revaluation result was restated and adjustments were made regarding the comparative figures for 2004, which can be presented as follows.

Notes to financial statements

Income statement

Thousand Lit	Note	2004 Before adjustment	2004 After adjustment	Adjustment amount
Sales and administrative expenses	(a)	(71 536)	(78 378)	(6 842)
Operating profit before financing costs		20 770	13 928	(6 842)
Profit before tax		21 920	15 078	(6 842)
Corporate income tax	(b)	(2 854)	(1 054)	1 800
Profit for the year		19 066	14 024	(5 042)
Basic earnings per share (Litas)		0.35	0.26	(0.09)
Diluted earnings per share (Litas)		0.35	0.26	(0.09)

Balance sheet

Thousand Lit	Note	2004 Before adjustment	2004 After adjustment	Adjustment amount
Assets				
Property, plant and equipment	(c)	159 942	154 233	(5 709)
Deferred tax	(d)	530	1 600	1 070
Total non-current assets		163 610	158 971	(4 639)
Inventories	(c)	40 413	39 830	(583)
Total current assets		90 447	89 864	(583)
Total assets		254 057	248 835	(5 222)
Equity				
Reserves	(e)	21 379	21 199	(180)
Retained earnings	(f)	10 563	5 521	(5 042)
Total equity		113 285	108 063	(5 222)
Total equity and liabilities		254 057	248 835	(5 222)

(a) An additional impairment of property, plant and equipment amounting to 6 842 tLTL has been recognised.

(b) The deferred tax related to impairment of property, plant and equipment has been adjusted by 1 800 tLTL.

Notes to financial statements

(c) Recognised an additional impairment of property, plant and equipment amounting to 6 842 tLTL and an increase in value of property amounting to 550 tLTL. Furthermore, property, plant and equipment which were presented under inventories, were re-classified to the non-current assets at a net carrying amount of 583 tLTL.

(d) The deferred tax asset was increased by an amount of 1 070 tLTL, which can be specified as follows:

- Increase in the deferred tax asset due to impairment of property, plant and equipment by 1 800 tLTL
- Decrease of the deferred tax asset due to an increase in the deferred tax liability related to the increase in the property value by 730 tLTL

(e) The revaluation reserve was increased by 550 tLTL due to an increase in the value of property and was decreased by the amount of the related deferred tax liability by 730 tLTL.

(f) The retained earnings have decreased due to additionally recognised impairment of property, plant and equipment by 6 842 tLTL and has increased due to the increase in the related deferred tax asset by 1 800 tLTL.

AB Pieno Žvaigždės

Report on the Company's
activities for the year 2005
including auditor's report

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Review report regarding report on the Company's activities

We have reviewed the report on the activities of AB Pieno Žvaigždės (the Company) for the year ended 31 December 2005, as set out on pages 2 - 4. This report and the assumptions for operational plans and forecasts are the responsibility of the Company's management. Our responsibility is to issue a report whether the information contained in the report on the Company's activities is consistent with the statutory financial statements.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements as promulgated by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the report on the Company's activities is consistent with the statutory financial statements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. Specifically, we have not reviewed management's estimations and comments concerning future plans and forecasts, and, consequently, we do not comment on the estimations, future plans and forecasts contained in the report. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on the Company's activities is inconsistent with the Company's statutory financial statements for the year ended 31 December 2005 on which we expressed an unqualified opinion in our auditor's report dated 31 March 2006.

Klaipėda, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
ACCA and Lithuanian
Certified Auditor

Activity report of the Company for 2005

Overview of activities in 2005

AB Pieno Žvaigždės was established on 23 December 1998, after the merger of AB Mažeikių Pieninė and AB Pasvalio Sūrinė. A few years later AB Kauno Pienas was merged to the group. In 2004 the merger of AB Panevėžio Pienas was finished. The present structure of the Company allows to develop the production specialization program and to achieve better efficiency in the raw milk collection market.

Key financial indicators for 2005 may be presented as follows:

Financial Indicators	
Turnover	446,3 million Litas
Gross profit	91,5 million Litas
Profit before income tax	18,4 million Litas
Amortization & depreciation	27,2 million Litas
Investments to property, plant and equipment	52,8 million Litas

Other information:

- ✓ Number of employees (at the end of the year): 2 732;
- ✓ Natural milk collections: 318 thousand tons;
- ✓ Basic milk collections: 379 thousand tons;

Subsidiaries

At the end of the year 2005 AB Pieno Žvaigždės did not have any subsidiaries.

Trading with own shares

At the beginning of the year 2005 AB Pieno Žvaigždės had 107 511 own shares (0.20% of the total share capital).

In order to maintain the share price in the market in 2005 the Company additionally acquired 200 000 own shares and at the end of the year had 307 511 own shares (0.57% of the total share capital).

Trading with other shares

There was no trade with other companies' shares.

Company's branches and representative offices

AB Pieno Žvaigždės has four branches:

- ✓ Kauno Pienas, Taikos pr. 90, LT-51181 Kaunas;
- ✓ Mažeikių Pieninė, Skuodo g. 4, LT-89100 Mažeikiai;
- ✓ Pasvalio Sūrinė, Mūšos g. 14, LT-39104 Pasvalys;
- ✓ Panevėžio Pienas, Tinklų g. 9, LT-35115 Panevėžys.

Significant events during the year

- ✓ Reconstruction of Pasvalio Sūrinė was finished in the year 2005 and the third fermented cheese production line was installed.
- ✓ East Capital investment funds acquired 19% of AB Pieno Žvaigždės shares from "SwedeAgri Invest" in the year 2005.
- ✓ Paul Bergqvist was elected as the Board member of AB Pieno Žvaigždės. Paul Bergqvist is the Executive Vice President of Carlsberg Breweries and a member at the Boards of Telenor AS and City Mail AB.

Post balance sheet events

There were no significant events after the balance sheet date until approval of Activity report date.

Future plans

Key figures from 2006 budget:

- ✓ 495 million Litas turnover;
- ✓ 4% - 5% net profit margin;
- ✓ Total investments 47 million Litas;
- ✓ Amortization and depreciation: 33,7 million Litas;

Also planned in 2006:

- ✓ Continuation of the specialization program;
- ✓ Improvement of customers service quality;
- ✓ Improvement of the Company's organizational structure.

Chairman of the board

Julius Kvaraciejus