PRICEWATERHOUSECOOPERS

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Translation note

This version of our report/the accompanying documents is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Rokiškio sūris AB

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rokiškio sūris AB (hereinafter "the Company") and its subsidiary (hereinafter collectively "the Group") set out on pages 5 - 32 which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2006 set out on pages 33 - 38 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Ona Armalienė
Auditor's Certificate No.000008

Vilnius, Republic of Lithuania
16 April 2007

ROKIŠKIO SŪRIS AB

CONSOLIDATED FINANCIAL STATEMENTS,

ANNUAL REPORT AND

INDEPENDENT AUDITOR’S REPORT

31 DECEMBER 2006

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF ROKIŠKIO SŪRIS AB

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

Consolidated income statement

		Year ended 31 December	
	Notes	2006	2005
Sales	5	518,144	473,118
Cost of sales		(450,963)	(399,707)
Gross profit		67,181	73,411
Selling and marketing expenses	6	(24,358)	(25,920)
General and administrative expenses	7	(21,936)	(17,760)
Other operating losses	8	(197)	(2,269)
Operating profit		20,690	27,462
Finance costs	10	(2,452)	(1,872)
Profit before tax		18,238	25,590
Income tax	11	(5,217)	(4,590)
Net profit		13,021	21,000
Attributable to:			
Equity holders of the Company		13,021	20,952
Minority interest		-	48
		13,021	21,000
Diluted and basics earnings per share (LTL per share)	12	3.01	4.81

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 5 to 32 have been approved for issue by the Board of Directors as at 1 April 2007 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
Director

Antanas Kavaliauskas
Chief Financial Officer

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

Consolidated balance sheet

		As at 31 December	
	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	13	122,822	127,013
Intangible assets	14	547	1,135
Other receivables	15	13,167	15,165
		136,536	143,313
Current assets			
Inventories	16	102,703	71,115
Trade and other receivables	17	81,223	81,840
Prepaid Income Tax		1,625	-
Cash and cash equivalents	18	669	3,184
		186,220	156,139
Total assets		322,756	299,452
EQUITY			
Attributable to the equity holders of the Company			
Share capital	19	47,462	47,462
Share premium		41,473	41,473
Reserve for acquisition of treasury shares		30,000	10,000
Treasury shares	21	(20,352)	(16,224)
Other reserves	22	69,805	69,805
Retained earnings		24,645	41,900
Total equity		193,033	194,416
LIABILITIES			
Non-current liabilities			
Borrowings	23	-	4,253
Deferred income	24	6,703	6,551
		6,703	10,804
Current liabilities			
Income tax liabilities			217
Borrowings	23	76,337	50,701
Deferred income	24	2,380	2,179
Trade and other payables	25	44,303	41,135
		123,020	94,232
Total liabilities		129,723	105,036
Total equity and liabilities		322,756	299,452

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

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

Consolidated statement of changes in equity

		Attributable to the equity holders of the Company								
	Notes	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2005		47,462	41,473	10,000	(16,224)	69,805	41,844	194,360	1,468	195,828
Change in accounting policy	14	-	-	-	-	-	875	875	-	875
Net profit for the period		-	-	-	-	-	20,952	20,952	48	21,000
Total recognised income for 2005		**-**	**-**	**-**	**-**	**-**	**21,827**	**21,827**	**48**	**21,875**
Minority of subsidiaries disposed		-	-	-	-	-	-	-	(1,516)	(1,516)
Dividends relating to 2004	20	-	-	-	-	-	(21,771)	(21,771)	-	(21,771)
Balance at 31 December 2005		47,462	41,473	10,000	(16,224)	69,805	41,900	194,416	-	194,416
Net profit for the period		-	-	-	-	-	13,021	13,021	-	13,021
Total recognised income for 2006		**-**	**-**	**-**	**-**	**-**	**13,021**	**13,021**	**-**	**13,021**
Acquisition of own shares	21	-	-	-	(4,128)	-	-	(4,128)	-	(4,128)
Transfer to reserve for acquisition of treasury shares	21	-	-	20,000	-	-	(20,000)	-	-	-
Dividends relating to 2005	20	-	-	-	-	-	(10,276)	(10,276)	-	(10,276)
Balance at 31 December 2006		47,462	41,473	30,000	(20,352)	69,805	24,645	193,033	-	193,033

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

	Notes	Year ended 31 December 2006	2005
Cash flows from operating activities			
Cash generated from operations	28	17,822	14,953
Interest paid		(2,452)	(1,872)
Income tax paid		(6,970)	(2,755)
Net cash generated from operating activities		8,400	10,326
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		-	45
Purchase of property, plant and equipment	13	(20,442)	(12,366)
Purchase of intangible assets	14	(41)	(34)
Purchase of investments		-	(3)
Proceeds from investments		-	5,246
Loans granted to farmers and employees		(516)	(4,337)
Other loans granted		(1,529)	(9,961)
Proceeds from sale of property, plant and equipment		134	1,855
Government Grants received		300	-
Other loan repayments received		677	8,656
Loan repayments from farmers and employees		2,929	2,189
Interest received		594	433
Net cash used in investing activities		(17,894)	(8,277)
Cash flows from financing activities			
Dividends paid		(10,276)	(20,047)
Acquisition of treasury shares	21	(4,128)	-
Proceeds from borrowings		38,135	25,068
Repayments of borrowings		(25,232)	(14,253)
Finance lease principal payments		(260)	(301)
Net cash used in financing activities		(1,761)	(9,533)
Net decrease in cash and cash equivalents		(11,255)	(7,484)
Cash and cash equivalents at beginning of the year	18	(5,327)	2,157
Cash and cash equivalents at end of the year		(16,582)	(5,327)

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements

1. General information

Rokiškio Sūris AB (hereinafter "the Company") is a public listed company incorporated in Rokiškis, 160 km North–West from Vilnius, the capital of Lithuania. Company's code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania.

The shares of Rokiškio Sūris AB are traded on the Official List of the National Stock Exchange.

The consolidated Group (hereinafter "the Group") consists of the Company its two branches and one subsidiary (2005: three branches). The branches and subsidiary included in the Group's consolidated financial statements are indicated below:

	Operating as at 31 December	
Branches	2006	2005
Ukmergės Pieninė	Yes	Yes
Utenos Pienas	Yes	Yes
Eišiškių Pieninė	No	Yes

	Group's share (%) as at 31 December	
Subsidiaries	2006	2005
Rokiškio pienas UAB *	100	-

* The only subsidiary was established as at 21 April 2006 and did not start its operations during the year ended 31 December 2006. No other assets, except of cash for LTL 10 thousand were held by the subsidiary.

All the above-mentioned branches and subsidiary undertakings are incorporated in Lithuania.

The Group's main line of business is the production of ferment cheese and a wide range of milk products. Average number of Group's employees during the year ended 31 December 2006 was 1,620 people (2005: 1,891 people).

2. Accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention.

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

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

Adoption of New or Revised Standards and Interpretations

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are either not relevant to the Group’s operations or do not have a material effect on the consolidated financial statements:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resource
- IFRIC 4, Determining whether an Arrangement Contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Early adoption of standards, interpretations and amendments to published standards

The Group has not elected to early adopt any new standards, interpretations and amendments to published standards.

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 Group’s accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted:

(a) 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 IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and 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. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Group will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

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

(b) IFRS 8, Operating Segments (effective from 1 January 2009)

IFRS 8 replaces IAS 14, Segment Reporting. It specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report additional selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group is currently assessing what impact the new IFRS will have on disclosures in its financial statements. The Group will apply IFRS 8 from 1 January 2009. At the date of the issuance of these consolidated financial statements this standard was not adopted by the EU.

(c) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)

The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Group's operations.

(d) IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Group's operations.

(e) IFRIC 9, Re-assessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. The management of the Group believes that this interpretation will not significantly effect the financial statements of the Group. The Group will apply this interpretation from 1 January 2007.

(f) IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(g) IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

The Interpretation addresses how to apply IFRS 2, Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Group's operations as the Group is not involved in share-based payment arrangements. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(h) IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Group's operations as the Group is not involved in service concession arrangements. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(i) IAS 23, Borrowing costs (Amendment, effective date for periods beginning on or after 1 January 2009)

The amended IAS 23 relates to the accounting treatment for borrowing costs incurred that relate to assets that take a substantial period of time to get ready for use or sale, removing the option of immediately recognising such costs as an expense through profit and loss and requiring them now to be capitalised. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

Endorsement by the European Union of certain of the above new or revised IFRSs effective on or after 1 January 2007 is pending. However, management decided to include also these IFRSs in the above disclosure because the European Union may require their application to periods before the endorsement.

2.2 Group accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Litas (LTL), which is the Company’s (and each of the Group entity’s) functional and presentation currency.

Litas is pegged to the Euro at an exchange rate of LTL 3.4528 = EUR 1 from 2 February 2002.

(b) Transactions and balances

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

2.4 Property, plant and equipment

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

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

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

In 2006, the Company‘ management introduced changes in useful lives previously applied to property, plant and equipment, and with effect from 2006, all items of property, plant and equipment are depreciated over the newly estimated useful lives. New and former useful lives are given in the table below:

	Year ended 31 December	
	2006	**2005**
Buildings	25-55 years	30 - 80 years
Plant & machinery	5-15 years	5 - 35 years
Motor vehicles	3-5 years	3 - 5 years
Equipment and other property, plant and equipment	3-8 years	3 - 8 years

The effect of this change in management’s accounting estimate is disclosed in Note 27.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.6).

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

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

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

2.5 Intangible assets

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

2.6 Impairment of non-financial assets

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

2.7 Financial assets

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

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

2.8 Inventories

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

2.9 Trade and other amounts receivable

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

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

2.10 Cash and cash equivalents

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

2.11 Share capital

(a) Ordinary shares

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

(b) Treasury shares

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

2.12 Reserves

(a) Other reserves

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

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

(b) Reserve for acquisition of treasury shares

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

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Profit is taxable at a 15 per cent (2005: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

According to the newly adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 4 per cent for 2006 and at a rate of 3 per cent for 2007 should be paid on taxable income earned during 2006 and 2007 respectively.

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

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

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

2.15 Leases – where the Group is the lessee

(a) Finance lease

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

(b) Operating lease

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

2.16 Employee benefits

(a) Social security contributions

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

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

(b) Termination benefits

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

(c) Bonus plans

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

2.17 Revenue recognition

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

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

2.18 Dividend distribution

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

2.19 Earnings per share

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

2.20 Segment reporting

The Group’s single business segment is production of cheese and milk products, therefore, information on key business segment is not presented. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.21 Government grants and subsidies

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

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

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

2.22 Provisions

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

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

2.23 Trade payables

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

2.24 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparatives have been adjusted to take into account the re-classification of prepayments from property, plant and equipment to other receivables in order to comply with International Accounting Standard No. 16 (Note 13).

3. Financial risk management

(a) Financial risk factors
The Group's activities are exposed to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Market risk: foreign exchange risk
The Group operates internationally, however, its exposure to foreign exchange risk is set at minimum level, since its sales outside Lithuania are performed in euros. The exchange rate of euro and litas is fixed.

Credit risk
The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

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

Interest rate risk
The Group has no significant interest-bearing assets. The Group's policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

(b) Fair value estimation
The nominal value less impairment provision of trade receivables and the nominal value of accounts payable is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Impairment provision for accounts receivable

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

Estimates of useful lives of property, plant and equipment

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

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

5. Segment reporting

Primary reporting format – business segments

The Group's single business segment is production of cheese and milk products.

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Lithuania	189,360	169,927	321,131	299,452	21,553	10,512
Europe Union countries	198,075	203,294	-	-	-	-
CIS countries	120,500	64,593	-	-	-	-
Other (including USA and Japan)	10,209	35,304	-	-	-	-
	518,144	473,118	321,131	299,452	21,553	10,512

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

Analysis of revenue by category:

	2006	**2005**
Sales of goods	487,223	447,890
Export subsidies	21,040	14,734
Other	9,881	10,494
	518,144	473,118

Pursuant to European Commission Regulation *On definition of compensation for milk and milk product export costs*, with effect from 1 May 2004 the Company is entitled to receive subsidies for cheese exported to the countries specified in the Regulation. Export subsidies are paid for each tone of exported products that meet certain requirements attached to the Regulation. Export subsidies receivable are recorded under amounts trade and other receivables (Note 17).

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

6. Selling and marketing expenses

	2006	2005
Marketing services	7,154	8,055
Payroll expenses	5,832	5,636
Transportation services	4,733	5,256
Product image creation and advertising expenses	1,774	2,106
Repair and maintenance	1,752	1,814
Depreciation of property, plant and equipment	1,315	1,311
Warehousing services	142	20
Other expenses	1,656	1,722
	24,358	25,920

7. General and administrative expenses

	2006	2005
Payroll expenses	6,814	7,472
Taxes (other than income tax)	371	1,459
Impairment and write-offs of loans granted to farmers	2,503	1,010
Consulting expenses	765	1,041
Depreciation of property, plant and equipment	1,185	815
Repair and maintenance	581	605
Paid and accrued bonuses	4,200	518
Telecommunication and IT maintenance expenses	80	452
Insurance expenses	324	442
Write-offs of property, plant and equipment	54	357
Bank charges	212	233
Business trips	746	175
Fines	191	166
Training of employees	167	160
Membership fees	140	132
Charity, support	139	123
Reversal of impairment of inventory and inventory write-offs	-	(58)
Impairment (reversal) of amounts receivable	270	(6)
Other expenses	3,194	2,664
	21,936	17,760

8. Other operating losses

	2006	2005
Loss on disposal of subsidiaries	-	(868)
Loss on disposal of property, plant and equipment (Note 28)	(155)	(764)
Loss on disposal of investments	-	(637)
Other	(42)	-
	(197)	(2,269)

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

9. Expenses by nature

	2006	2005
Raw materials and consumables used	340,527	295,340
Payroll expenses	44,391	39,336
Transportation services	27,371	27,012
Depreciation and amortisation	18,677	17,728
Marketing services	7,154	8,055
Repair and maintenance	7,514	6,772
Cost of materials sold	6,125	5,632
Taxes (other than income tax)	565	1,627
Consulting expenses	765	1,041
Telecommunication and IT maintenance expenses	215	574
Other	43,953	40,270
Total cost of sales, selling and marketing expenses and general and administrative expenses	497,257	443,387

Payroll expenses include wages and salaries of LTL 29,635 thousand (2005: LTL 32,863 thousand), social security contribution costs of LTL 9,183 thousand (2005: LTL 10,301 thousand) and bonuses of LTL 518 thousand (2005: LTL 2,076 thousand).

10. Finance costs

	2006	2005
Interest expense:		
– bank borrowings	(2,432)	(1,847)
– finance leases	(20)	(25)
	(2,452)	(1,872)

11. Income tax

	2006	2005
Current tax	5,217	4,590
	5,217	4,590

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

	2006	2005
Profit before tax	18,238	25,590
Tax calculated at a tax rate of 19 per cent (2005: 15 per cent) (Note 2.14)	3,465	3,838
Tax non-deductible expenses	1,825	1,372
Unrecognised tax losses of subsidiaries	-	115
Income not subject to tax	(32)	(710)
Charity expenses deductible twice for tax purposes	(34)	(25)
Other	(7)	-
Tax charge	5,217	4,590

The tax authorities have carried out full-scope tax audits at the Company for the year 2001. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

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

12. Earnings per share

	2006	2005
Net profit attributable to shareholders	13,021	20,952
Weighted average number of ordinary shares in issue (thousands)	4,327	4,354
Basic earnings per share (LTL per share)	3.01	4.81

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

13. Property, plant and equipment

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2005					
Cost	47,488	128,316	63,607	2,320	241,731
Accumulated depreciation	(10,054)	(57,431)	(34,737)	-	(102,222)
Net book amount	37,434	70,885	28,870	2,320	139,509
Year ended 31 December 2005					
Opening net book amount	37,434	70,885	28,870	2,320	139,509
Additions	919	3,012	3,700	2,847	10,478
Disposals	(1,739)	(686)	(194)	-	(2,619)
Disposal of subsidiaries	(74)	(3)	(64)	(3)	(144)
Write-offs	-	(320)	(37)	-	(357)
Transfers from CIP	1,483	1,587	232	(3,302)	-
Depreciation charge	(1,047)	(11,358)	(7,449)	-	(19,854)
Closing net book amount	36,976	63,117	25,058	1,862	127,013
At 31 December 2005					
Cost	47,354	130,827	65,455	1,862	245,498
Accumulated depreciation	(10,378)	(67,710)	(40,397)	-	(118,485)
Net book amount	36,976	63,117	25,058	1,862	127,013
Year ended 31 December 2006					
Opening net book amount	36,976	63,117	25,058	1,862	127,013
Additions	99	10,113	5,410	5,890	21,512
Disposals	(150)	(68)	(71)	-	(289)
Write-offs	(2)	(6)	(46)	-	(54)
Transfers from CIP	332	1,288	593	(2,213)	-
Depreciation charge	(1,874)	(15,576)	(7,910)	-	(25,360)
Closing net book amount	35,381	58,868	23,034	5,539	122,822
At 31 December 2006					
Cost	47,609	141,147	69,947	5,539	264,242
Accumulated depreciation	(12,228)	(82,279)	(46,913)	-	(141,420)
Net book amount	35,381	58,868	23,034	5,539	122,822

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

The Group has in comparative financial year reclassified LTL 1,888 thousand of prepayments from Construction in progress to other receivables (Note 17) in order to comply with International Accounting Standard No. 16.

Leased assets, where the Group is a lessee under finance lease, comprise certain equipment as at 31 December:

	2006	2005
Cost - capitalised finance leases	-	1,400
Accumulated depreciation	-	(622)
Net book amount	-	778

As at 31 December 2006, certain property, plant and equipment with a carrying value of LTL 54,624 thousand (31 December 2005: LTL 68,565 thousand) have been pledged as security for bank borrowings.

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

No borrowing costs were capitalised during the years ended 31 December 2006 and 31 December 2005.

Operating lease rentals amounting to LTL 228 thousand (2005: LTL 85 thousand) relating to the lease of property, plant and equipment are included in the income statement.

14. Intangible assets

	Negative goodwill	Software	Total
At 1 January 2005			
Cost	(4,846)	2,041	(2,805)
Accumulated amortisation	3,971	(496)	3,475
Net book amount	(875)	1,545	670
Year ended 31 December 2005			
Opening net book amount	(875)	1,545	670
Change in accounting policy	875	-	875
Additions	-	34	34
Amortisation charge	-	(444)	(444)
Closing net book amount	-	1,135	1,135
At 31 December 2005			
Cost	-	2,075	2,075
Accumulated amortisation	-	(940)	(940)
Net book amount	-	1,135	1,135
Year ended 31 December 2006			
Opening net book amount	-	1,135	1,135
Additions	-	41	41
Write-offs	-	(1)	(1)
Amortisation charge	-	(628)	(628)
Closing net book amount	-	547	547
At 31 December 2006			
Cost	-	2,039	2,039
Accumulated amortisation	-	(1,492)	(1,492)
Net book amount	-	547	547

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

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

15. Other receivables

	2006	2005
Long-term loans to farmers	10,218	12,947
Long-term loans to employees	676	1,161
Less: provision for impairment of loans receivable	(830)	(846)
Long-term loans net	10,064	13,262
Prepayments	3,088	1,888
Other	15	15
	13,167	15,165

The current portion of long-term receivables is presented in Note 17.

Loans to farmers were granted with repayment terms ranging from 1 to 15 years. The annual interest rate ranges from 1 to 10 per cent. Effective interest rate was 7.56 per cent (2005: 8.35 per cent).

Long-term loans to employees were granted with repayment terms ranging from 5 to 25 years. The loans are interest free. Effective interest rate was 10.90 per cent (2005: 10.31 per cent).

Loans to employees and farmers include a certain amount of loans granted to Directors and Board member of the Group (Note 29).

In the opinion of the Group's management, the carrying amounts of long-term receivables approximate their fair values.

16. Inventories

	2006	2005
Raw materials	5,572	5,750
Work in progress	10,776	10,722
Finished goods	81,790	50,748
Other inventory	4,565	3,895
	102,703	71,115

As at 31 December 2006, inventories with cost of LTL 45,336 thousand (as at 31 December 2005: LTL 58,043 thousand) have been pledged as security for bank borrowings.

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

17. Trade and other receivables

	2006	2005
Trade receivables	52,325	58,358
VAT receivable	3,541	1,741
Current portion of long-term receivables	4,928	3,608
Export subsidies receivable (Note 5)	9,912	7,405
Grant receivable	2,232	-
Receivables on disposal of property, plant and equipment	-	28
Prepayments and deferred charges	689	537
Other amounts receivable	9,796	10,163
Less: provision for impairment of other amounts receivables	(2,200)	-
Other amounts receivable net	7,596	10,163
	81,223	81,840

As at 31 December 2006, certain trade accounts receivable of LTL 14,972 thousand (as at 31 December 2005: LTL 8,441 thousand) have been pledged as security for bank borrowings.

Current portion of long-term receivables and other amounts receivable include a certain amount of loans and other receivables from related parties (Note 29).

18. Cash and cash equivalents

	2006	2005
Cash at bank and in hand	669	3,184
	669	3,184

Cash in certain bank accounts and future cash inflows into these accounts up to LTL 14,250 thousand (2005: LTL 12,500 thousand) have been pledged as security for bank borrowings.

Group’s cash balance for LTL 872 thousand was frozen as at 31 December 2006, for the payment guarantees issued (Note 26).

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

	2006	2005
Cash and bank balances	669	3,184
Bank overdrafts (Note 23)	(17,251)	(8,511)
	(16,582)	(5,327)

19. Share capital

As at 31 December 2006, the share capital was comprised of 4,746,270 ordinary registered shares with par value of LTL 10 each. All the shares are fully paid. There were no changes in share capital during the year (see Note 21).

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

20. Dividends

The dividends per share, excluding treasury shares, declared in respect of 2005 and 2004 and paid in 2006 and 2005, were LTL 2,36 and LTL 5 or equivalent amounting to a total dividend of LTL 10,276 thousand and 21,771 thousand, respectively. There were no dividends proposed or declared in respect of 2006 as at the date of approval of these financial statements.

21. Treasury shares

	2006		2005	
	Number	**Amount**	**Number**	**Amount**
At beginning of year	392,047	16,224	392,047	16,224
Additions	82,570	4,128	-	-
At end of year	474,617	20,352	392,047	16,224

On 22 December 2006 the Company's shareholders made a decision to reduce the Company's authorized share capital by LTL 4,746 thousand through cancellation of 474,617 own shares previously purchased. As at 31 December 2006, no amendments were made to the Company's Articles of Association in respect of this decision, correspondingly reduction of share capital was not recognized in the financial statements for the year ended 31 December 2006. Management of the Company expects that the process will be finalized in 2007.

On 22 December 2006 the Company's shareholders made a decision to increase the reserve by LTL 20,000 thousand for acquisition of own shares.

22. Other reserves

	2006	2005
Distributable reserve	65,091	65,091
Non-distributable reserve	4,714	4,714
	69,805	69,805

Non-distributable reserves of LTL 3,593 thousand can only be used for share capital increase and non-distributable reserves of LTL1,121 thousand (legal reserve) can only be used for offsetting future operating losses, if any.

23. Borrowings

	2006	2005
Current		
Short-term bank borrowings	59,086	36,973
Bank overdrafts	17,251	8,511
Current portion of long-term bank borrowings	-	4,954
Finance lease liabilities	-	263
	76,337	50,701
Non-current		
Long-term bank borrowings	-	4,253
	-	4,253
Total borrowings	76,337	54,954

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

The bank borrowings are secured over certain of the property, plant and equipment (Note 13), inventories (Note 16), trade receivables (Note 17), cash in certain bank accounts (Note 18) and a bill of exchange issued for LTL 13,811 thousand.

According to loan agreement signed with SEB Vilniaus Bankas, the Company has a commitment to ensure that over the loan period its net borrowings/ EBITA ratio will be not higher than 1.7. As at 31 December 2006, the Company did not comply with this commitment, however it has no impact on presentation of borrowings in the financial statements as the above mentioned borrowings are presented under current liabilities.

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

	2006	2005
Long-term bank borrowings	-	3.72
Short-term bank borrowings	4.04	3.06
Finance lease liabilities	4.33	4.33
Bank overdrafts	4.31	3.76

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

	2006	2005
Euro	55,718	44,495
Litas	20,619	10,196
	76,337	54,691

Fair value of borrowings approximates to their carrying values.

The facilities expiring within one year are short-term loans subject to review at various dates during 2006. Weighted average interest rate of these facilities approximated to 4.19 per cent (2005: 3.75 per cent).

The exposure of the borrowings (excluding finance lease liabilities) of the Group to interest rate changes and the periods in which the borrowings are repriced are as follows:

	6-12 or less months	1-5 years	Total
At 31 December 2006			
Total borrowings	76,337	-	76,337
At 31 December 2005			
Total borrowings	76,337	-	76,337

24. Deferred income

	2006	2005
Government grants at beginning of year	8,730	10,690
Government grants recognised	2,532	-
Credited to income statement	(2,179)	(1,960)
	9,083	8,730
Less non-current portion	(6,703)	(6,551)
Current portion	2,380	2,179

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

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

25. Trade payables and other amounts payable

	2006	2005
Trade payables	40,150	38,245
Salaries, social security and taxes	2,892	1,584
Other payables	335	343
Accrued charges	940	963
	44,317	41,135

26. Contingent liabilities and commitments

Contingent liabilities

	2006	2005
Guarantees issued by the bank to third parties on behalf of the Group	4,269	2,638
Guarantees issued by the Group on behalf of farmers and agricultural companies	740	1,441
	5,009	4,079

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

Capital commitments

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements was LTL 1,501 thousand (31 December 2005: LTL 1,490 thousand)

Operating lease commitments – where the Group is the lessee

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

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

	2006	2005
Not later than 1 year	298	583
Later than 1 year but not later than 5 years	546	251
	844	834

27. Change in accounting estimates

With effect from 2006, the Company introduced changes in useful lives applied to property, plant and equipment. Useful lives were changed by the Company's management to reflect more accurately the use of economic benefits of assets in the Company‘s business activities and report more accurately the value of assets at the end of the reporting period.

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

In the *Accounting policies* of the notes to the financial statements, new and former useful lives are presented. The estimate of useful life applied by the Company's management was accounted for prospectively from 1 January 2006, depreciation charges for all assets are accounted based on newly estimated useful lives. The effect of change in this accounting estimate is disclosed in the table below:

Items affected in the financial statements	Amount of estimate	Amount before change in estimate	Amount after change in estimate
Effect on the assets			
Net book value of property, plant and equipment	(5,132)	127,954	122,822
Inventories	2,021	100,682	102,703
Total	**(3,111)**	**228,636**	**225,525**
Effect on the result of operations			
Cost of sales	(3,752)	(468,950)	(472,702)
Operating expenses	(89)	(24,269)	(24,358)
Income tax	730	(5,947)	(5,217)
Total	**(3,111)**	**(499,166)**	**(502,277)**

The effect on future periods was not disclosed since it is impracticable to estimate the amount.

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

28. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2006	**2005**
Net profit before tax	18,238	25,590
Adjustments for:		
– depreciation (Note 13)	25,360	19,854
– amortisation (Note 14)	629	444
– write-off of property, plant and equipment and intangible assets (Notes 13 and 14)	54	357
– loss on disposal of property, plant and equipment (Note 8)	155	764
– interest expense (Note 10)	2,459	1,872
– interest income (Note 5)	(594)	(526)
– write-offs of inventories	-	11
– impairment of other loans receivable (Note 7)	2,200	-
– unrealised currency exchange gain, net	-	224
– impairment and write-offs of doubtful and bad receivables (Note 7)	270	9
– impairment and write-offs of loans granted to farmers (Note 7)	303	1,010
– accrual for vacation reserve	(75)	-
– loss on disposal of subsidiaries (Note 8)	-	868
– loss on disposal of investments (Note 8)	-	637
– amortisation of government grants received (Note 25)	(2,179)	(1,960)
Changes in working capital		
– receivables and prepayments	640	(20,253)
– inventories	(31,588)	(16,185)
– payables	1,957	2,237
Cash generated from operations	17,822	14,953

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

	2006	**2005**
Net book amount (Note 13)	289	2,619
Loss from disposal of property, plant and equipment (Note 8)	(155)	(764)
Proceeds from disposal property, plant and equipment	134	1,855

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

29. Related party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company's Managing Director), which together own 47.87 per cent of the Company's share capital. Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 52.13 per cent of the shares are widely held (including treasury shares of 10%).

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

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

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

	2006	**2005**
Purchase of milk from other related parties	56,132	18,184
Sales of utility services to other related parties	1,687	484
Interest charges on credit facility	277	227

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

	2006	**2005**
Non-interest bearing loans granted to Senior Management (and their families)	3,065	5,308
Credit facility granted to Pieno Pramonės Investicijų Valdymas UAB	7,351	6,358
Non-interest bearing loans received from other related parties (Senior Management and their families)	-	2,800
Trade payables to other related parties (Senior Management and their families)	1,853	2,862

(iii) Compensation of key management

	2006	**2005**
Salaries	1,024	838
Bonuses	4,200	2,550
Social Insurance Contributions	337	260
	5,561	3,648

Key management includes 12 (2005: 12) members of the Board and Senior Management.

30. Subsequent events

After 31 December 2006, a subsidiary Rokiškio Pienas UAB started trade in dairy products. 512 individuals were employed from the branches of Rokiškio Sūris AB in Ukmergė and Utena.
Based on the Resolution of the Board of Directors as of 2 January 2007, the authorized share capital of a subsidiary Rokiškio Pienas UAB should be increased from LTL 10 thousand to LTL 26,859 thousand by way of in-kind (non-cash) contribution made by Rokiškio Sūris AB.

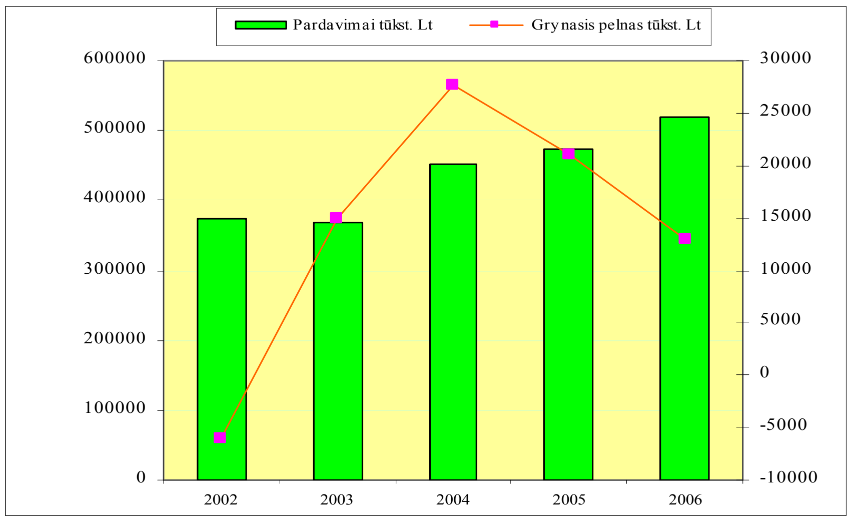
Subsequent to 31 December 2006, the Company declared dividends proposed for 2006 amounting to LTL 2.36 per share.

Rokiškio Sūris AB Group Annual Report for 2006

Overview of performance

Rokiškio Sūris AB (hereinafter “the Company”) and its subsidiaries (hereinafter “the Group”) earned sales revenue of LTL 518.144 million and net consolidated audited profit of LTL 13.021 million. Although the Group‘s profit for 2006 decreased by 38.0 per cent as compared to LTL 21.000 million in 2005, its sales revenue was higher by 9.5 per cent as compared to LTL 473.118 million in 2005.

In 2006, the total payroll expenses amounted to LTL 31,833 thousand, which is less by LTL 7,503 thousand as compared to 2005. The average gross salary in 2006 was LTL 1,492 (including part-time managers of 432 milk buying-up stations) as compared to LTL 1,325 in 2005. In 2006, the average number of employees fell down to 1,620 as compared to 1,891 employees in the Group.



Objective overview of the financial position, performance and development, description of its exposure to key risks and contingencies

Possible areas of development have been analysed, and separate plans of actions have been prepared in relation to development activities in foreign countries.
Key risks and contingencies arise from uncertainties related to the standpoint of foreign competition agencies towards the development of the Lithuanian companies.

Changes in the financial position

In October 2005, Rokiškio Sūris AB applied for financial aid from the EU amounting to LTL 3.45 million to finance its business plan for *Rokiškio Sūris AB Whey Collection and Processing*.

In December 2006, a request for payment appropriation was submitted for the 1st stage of investment aid. Amount of aid requested was LTL 2.23 million. The second request for payment appropriation will be submitted in the second quarter of 2007.

The financial aid obtained will enable the Group to solve environmental issues and strengthen its competitiveness in the EU market, as well as ensure full processing of whey through actual implementation of wasteless production technology, and produce new products.

In 2006, Rokiškio Sūris AB branch Utenos Pienas received a subsidy of LTL 0.3 million from the Lithuanian Environmental Investment Fund for solution of environmental issues and improvement of steam supply and condensate return system.

In 2006, financial aid received for private storage of long-term maturing cheese amounted to LTL 0.1 million.

In 2006, subsidies paid to the group for products sold amounted to LTL 21,040 thousand.
During the reporting financial year the Group acquired property, plant and equipment and intangible assets for LTL 21,553 thousand (2005: LTL 12,400 thousand, 2004: LTL 21,701 thousand).

As at 31 December 2006, the Group's short-term borrowings amounted to LTL 74,048 thousand, and long-term borrowings amounted to LTL 2,289 thousand. Total borrowings of the Group amounted to LTL 76,337 thousand at the year end.

Key indicators of the performance

No.	Indicators		2004	2005	2006
1.	Net profit margin	Net profit / Revenues	0,06	0,04	0,03
2.	Average return on assets	Net profit / Average assets	0,09	0,07	0,04
3.	Debt ratio	Liabilities / Assets	0,3	0,35	0,40
4.	Debt-to-equity ratio	Liabilities / Equity	0,43	0,54	0,67
5.	General liquidity ratio	Current assets / Current liabilities	1,96	1,66	1,51
6.	Assets turnover ratio	Revenues / Assets	1,61	1,58	1,61
7.	Book value per share, LTL	Equity / Number of ordinary shares	41,26	40,96	40,67
8.	Net earnings per share, LTL	Net profit / Number of shares	6,21	4,81	3,01

The Company's share value

During 2006, Rokiškio Sūris AB share value quoted on the Vilnius Stock Exchange ranged from LTL 43.50 to LTL 75.50. Total stock turnover was LTL 59.60 million in 2006.
At the year-end, the Company's capitalisation was LTL 261.04 million, and the last trade price of securities was LTL 55.00.

Rokiškio Sūris AB Group structure

At the end of 2006, Rokiškio Sūris AB Group consisted of the parent company Rokiškio Sūris AB its two branches: Utenos Pienas and Ukmergės Pieninė and subsidiary company: Rokiškio pienas UAB.

Structural changes over the financial year 2006

As a result of discontinued operations, Rokiškio Sūris AB branch Eišiškių Pieninė was removed from the Lithuanian Register of Legal Entities on 5 April 2006.

For the purpose of separating the business of production of fresh dairy products from the business of production of cheese, a subsidiary Rokiškio Pienas UAB was established and registered with the Lithuanian Register of Legal Entities on 21 April 2006. The subsidiary is wholly-owned by Rokiškio Sūris AB.

As at 31 December 2006, Rokiškio Sūris AB had one subsidiary – Rokiškio Pienas UAB.

Acquisition of own shares

During 2006, Rokiškio Sūris AB acquired 82,570 own ordinary registered shares (1.73% of share capital). The shares were acquired by way of open bid on the Vilnius Stock Exchange, where the price payable per ordinary registered share was LTL 50.00. Own funds were used by Rokiškio Sūris AB for the payment of own shares.
The purpose of acquisition of owns shares was to maintain and increase the stock price of Rokiškio Sūris AB.

As at 31 December 2006, Rokiškio Sūris AB had 474,617 own shares, which account for 10 per cent of the authorised share capital of Rokiškio Sūris AB. Par value of one share is LTL 10.

Changes in management of Rokiškio Sūris AB Group

During the General Ordinary Shareholders Meeting of Rokiškio Sūris AB held on 28 April 2006, all Board members were recalled and a new Board was elected. The newly elected Board members of Rokiškio Sūris AB were as follows: Mr. Nerijus Dagilis, Mr. Dalius Trumpa, Mr. Antanas Kavaliauskas, Mr. Andrius Trumpa, and Mr. Ramūnas Vanagas. Mr. Nerijus Dagilis was elected as a Chairman of the Board.

Following the resignation of Mr. Nerijus Dagilis from the positions of the Board Member and the Chairman of the Board on 5 July 2006, Mr. Dalius Trumpa was elected for the position of the Chairman of the Board.

Raw milk supplies

In 2006, 1,558.4 thousand tonnes of base fat milk were bought up in Lithuania, which is more by 8.7 per cent as compared to 2005. In 2006, the average price of base fat milk in Lithuania increased by 2 per cent as compared to 2005 and amounted to LTL 578 per tonne.

Rokiškio Sūris AB bought up 320,069 tonnes of base fat milk directly from milk producers for an average price of LTL 556 per tonne. Base fat milk bought up subject to no discounts accounted for 95.6 per cent of total base fat milk bought up in 2006.
Milk bought up from other suppliers amounted to 212,758 tonnes for an average price of LTL 691 per tonne. Rokiškio Sūris AB Group companies bought up in total 532,827 tonnes of base fat milk or more by 6.0 per cent as compared to 2005. In 2006, an average price of milk bought up was LTL 610 per tonne, which is higher by LTL 26 per tonne as compared to 2005.

Raw milk supplies from the Baltic region were expanded comprising not only in Lithuania, but Latvia, as well.

Production, production output, and new products

Rokiškio Sūris AB

During 2006, in Rokiškis Rokiškio Sūris AB produced 28,033 tonnes of fermented cheese (more by 12.8 per cent than in 2005), 7,446 tonnes of milk sugar, and 51,576 tonnes of 9% whey protein concentrate.
In 2006, for the purpose of reducing production costs and sustain a high level of production, production technology for Gojos and Cagliata brands of cheese was improved.
A modern system to ensure safe food management and quality of food was introduced in the production process, which is certified at a global level and enables to produce safe and quality food products that meet the requirements of customers.
The Company continuously seeks to mitigate adverse effect on environment and ensures a minimal level for utilization of hazardous substances and generation of waste.

Fermented cheese produced in Rokiškis is well appreciated among the consumers, which is assured during the trade fairs held in Lithuania and Russia.

Branch Ukmergės Pieninė

Ukmergės Pieninė is one of the most modern dairying company of curd and curd-cheese all over Lithuania. Along with rapid development of dairying companies and intense competition, the branch Ukmergės Pieninė specializes in production of curd, curd-cheese and coated curd-cheese bars, expands the range of products offered, and successfully continued the production of melted curd products.

The main objective of the branch is to find an optimal production solution that would satisfy the needs of the customers and increase the Groups's profit at a maximum level.
A modern production department of curd and curd-cheese was set up. The focus is given to installation of state-of-the-art technology and development of new products, which enables the Group to achieve good results and maintain a high level of production output, as well as ensure safe production of products

In 2006, 4,154 tonnes of products were produced (more by 2.4 per cent as compared to 2005), whereof 2,760 tonnes of curd, 427 tonnes of curd-cheese, 789 tonnes of coated curd-cheese bars, 67 tonnes of fruit juice drinks, and 111 tonnes of melted curd products.

Technologies and new products are in the process of development: melted curd products, home-made curd cheese, yummy curd-cheese (sausages), &JOY curd for kids.
RVASVT system was subject to recertification in compliance with ISO 22000:2005 standard Food safety management systems – Requirements for any organization in the food chain.
The branch Ukmergės Pieninė often participates with its products at trade fairs and has a number of awards. The company produces a well-appreciated curd-cheese among the customers *Proginis varškės sūris*.

Branch Utenos Pienas

In 2006, the branch Utenos Pienas produced 843 tonnes of skimmed milk powder, 9.7 tonnes of buttermilk powder, 4,550 tonnes of whey protein concentrate powder, 3,907 tonnes of butter-fat mixture, 56,512 tonnes of fresh dairy products, and 10,603 tonnes of cream were produced and exported.
New products are successfully produced, which include yoghurts with orange and carrots, milk drink of the taste of peach, 20 % fat source cream, and fat mixture BIFIDO.

Sales and marketing

Rokiškio Sūris AB group of companies is one of the largest and strongest dairying company in Lithuania. Its sales are widely diversified – products are exported to Eastern and Western markets, and a full range of fresh dairy products are sold primary to meet the needs of domestic market.

In 2006, the Group's sales increased by 3 per cent as compared to 2005 and reached LTL 518 million. With each year, the Group consistently increases its sales and in 2007 it plans to increase sales by additional 18 per cent up to LTL 610 million.
Over 2/3 of sales of Rokiškio Sūris AB group represent exported production, where fermented cheese accounts for even ¾ of exported products. Since long ago, the Group has been focused on mass production of fermented cheese and is one of the largest and well-known producers of fermented cheese in the region of Central and Eastern Europe. Two main areas of sales of fermented cheese of a similar relevance may be distinguished: sales to the EU markets (mainly to Italy and the Netherlands), and sales to Russia. Sales in the EU region mostly comprise hard and non-matured (fresh) cheese, whereas sales in the Russian market comprise mainly comprise semi-hard cheese. For exports of fermented cheese to the Russian market, the Company receives subsidies, which enable it to compete successfully with lower-price local production. The potential of this market is growing. Here the Company sells products with its trademark, and it plans to strengthen them, and expand the range of packaging used.
And beyond any doubt, cheese with trademark of Rokiškio Sūris is well-known and well-buyable on the local market. Cheese of Rokiškio Sūris is associative with unquestionable and highest quality product.

Presently, the Group has withdrawn from the US market, where prices are no longer attractive as they were several years ago due to the falling US dollar rate.

In addition, in export markets the Group sells ordinary milk products, such as butter, cream, milk powder, and additional products that are used in the process of production of cheese, i.e. whey protein concentrate and lactose.

The Group remains the major exporter of diary products – in 2006 it exported over 22 thousand tonnes of fermented cheese (more by 8 per cent as compared to 2005), 10.6 thousand tonnes of cream (more by 4 per cent as compared to 2005), 5.4 thousand tonnes of lactose (more by 24 per cent as compared to 2005), 3.35 thousand tonnes of whey protein concentrate (more by 10 per cent as compared to 2005), and 1.8 thousand tonnes of butter and 0.9 thousand tonnes of milk powder each.

Another important area of focus for the Group is sales of fresh diary products in Lithuania. During the recent years, the Group has become one of the leaders on the domestic market and today it shares the leading positions together with Pieno Žvaigždės. Over the last several years, the Group's objectives in the domestic market have changed radically: it is attempted to have a higher added value, promotion of sales is carried out through development of trademarks, introduction of new products, and innovations offered for the market (the Company's sales in dessert and other categories of new products increased twice during one and a half years). The Company's marketing function strengthens with each year.

The Group‘s objectives in respect of the domestic market are to focus on the portfolio of the core strongest products and retain a market share of not less than approx. 25 per cent. These objectives have been successfully implemented so far.

The Group will further seek to maintain close relations with its customers, especially with the retail trade chains, the percentage of which in the sales gradually increases and accounts for over 80 percent of aggregate internal turnover. The Group will further seek to strengthen confidence of its customers through building a single logistic system, which will enable the customer to get the production of all companies from one location and only with one document. This will encourage the customers to co-operate with the company as a convenient partner.

Today the Group has already formed the core of its trademarks: economic – VISIEMS, mass – ŽALOJI KARVUTĖ, premium – ROKIŠKIO and ROKIŠKIO NAMINIS, dessert – &JOY, Horeca sector – PROF, low-fat – VALGYK LENGVAI. The Company sells ecological products.

A special focus is placed on ensuring sustained quality the products, which helps to successfully implement the marketing strategy.
Presently, the Group is preparing for other important projects related to quality improvement and standard compliance with the EU requirements with the help of financial aid from the EU and the structural funds.

Information on research and development activities

A study of foreign dairying companies was carried out via consulting companies.
A preliminary survey was conducted for possible consolidation with foreign dairying companies.

Operation plans and forecasts

For the year 2007, the Company has plans to achieve sales of LTL 610 million, which is more by 17.8 per cent as compared to 2006, and net profit margin of at least 4.2 per cent.
Forecast – to gain control over one or several companies to conduct business operations via them in foreign countries this or next year.

The Group‘s main objectives are as follows:

- Sales and marketing – retain market share and penetrate into new emerging markets, develop new products and services.
- Production – sustain the highest quality of products, produce new dairy products and supplement the range of products offered, fully use the current production capacity and implement modern technologies.
- Raw milk supplies – retain the status of the largest and the most credible buyer of raw milk in Lithuania, and buy out raw milk from neighbouring countries.
- Finance – ensure required profitability and liquidity levels, maximise the value of shareholders' assets.
- Management – improve functional management system through implementation of management by type of products.

APPENDIX to Consolidated annual report

Rokiškio sūris AB disclosure of compliance with the Governance Code of the companies whose securities are traded on a regulated market on pages i - xxvi is an integral part of this consolidated annual report.

A. Trumpa
Director

A.Kavaliauskas
Finance director

APPENDIX to Consolidated annual report

Rokiškio sūris AB disclosure of compliance with the Governance Code of the companies whose securities are traded on a regulated market

Rokiškio sūris AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company announces its development strategy and objectives publicly in the annual and interim quarterly performance reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's managing bodies act in furtherance of the strategic plan according to which the mission is to form a strong, financially sound and technically modern enterprise creating and constantly increasing its value for shareholders.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's CEO and the Board of Directors cooperate closely (the CEO participate at all meetings of the Board of Directors, submits reports on the company's performance and implementation of strategic plan and budgeting, provides recommendations for the Board's resolutions), which inure to both the Company and shareholders benefit.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's Board of Directors and managing bodies ensure the rights and interests of shareholders, employees, raw material suppliers are duly respected. Employees can enjoy opportunities to improve their qualification at various seminars and course in Lithuania and abroad, there are various privileges for raw milk producers. The great part of employees are shareholders

		of the Company.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The Company's managing bodies are a general shareholders' meeting, the Board of Directors and the Chief Executive Officer. The Company does not have a collegial supervisory body, and its functions are overtaken by the Board of Directors. The Company's CEO is accountable to the Board of Directors. The CEO is not a member of the Board of Directors.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Functions of the collegial management body are carried out by the Board of Directors.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company has only one collegial management body and it is the Board of Directors who carry out the functions of the supervisory board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	The Company has a collegial management body – the Board of Directors. Principles III and IV of the Code are applied to the Board of Directors.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	No	According to the Articles of Association the Board of Directors consists of 5 members. The Company believes that 5 members is sufficient to have productive work of the Board of Directors enabling to accept rational resolutions and execute decisions of general shareholders' meetings.

2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to the Articles of the Association the Board of Directors is elected for the 4 year period. Cadency number is not limited. A possibility to resign or remove a member of the Board of Directors is regulated by the Lithuanian legislation.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's Board Chairman is not the Chief Executive Officer.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	Members of the Board of Directors are minor shareholders of the Company. Pursuing the resolution of general meeting of shareholders according to the Law on Joint Stock Companies the Board members are provided remuneration in the form of tantiemes. Minor shareholders are not limited in their right to represent their interests and have their representative on the Board of Directors. Each candidate to the members of the Board provide information to shareholders as on their previous and current positions, as well connections with the Company and the third related parties.

3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about the members of the Board of Directos (names, education, qualifications, professional experience, participation in the activities of other companies, other important professional obligations) is provided in the periodical reports.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	A candidate to the members of the Board inform general meeting of shareholders about his/ her education, professional performance, position and participation in the activities of other companies. Members of the Board provide information on the participation in qualification programmes related with activities on the Board.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	There is a Development and Auditing Committee in the Company which consists of 2 members. The Auditing Committee carries out independent and objective activities analyzing, evaluating and consulting the Company in order to improve the Company's performance and increase its added value.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	All new Board members are informed on the Company's performance, organization and changes in the meetings of the Board of Directors.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	The item of Company's compliance with the Code's independency criteria will be put on the Board meeting agenda in the nearest time.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director	No	As from 1995 until 2006, the greatest part of the Board of the Company was made of independent members. When the structure of shareholders changed, and the Board of Directors resigned, the new members were elected, and they do not comply with the Code's independency criteria. This year the Company will discuss the issue regarding independency of Board members.

or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	By 2006, the Board of Directors consisted of 3 independent members of 5. Upon the shareholder structure change, the consistence of the Board changed also. Now the Board members do not comply with the independency criteria of the Code.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	As the Code was approved in August 2006, the Company has not had a possibility to implement the independency criteria. In addition, until April 2006, the Company's Board consisted of 2/3 of independent members.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	According to the resolution of general shareholders' meeting the Board members are remunerated from the Company's profit in the manner of tantiemes.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board of Directors approves and submits reciprocations and recommendations to a general meeting of shareholders regarding annual accountability of the Company, distribution of the profit, annual report of the Company, performance report of the CEO and the Board of Directors, as well as carries out other functions.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	By the Company's information, all Board members act in good will *vis-a-vis* the Company. They are guided by the Company's interests but not their own or any third parties seeking to maintain their independency when accepting decisions.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member of the collegial body fulfills his/ her functions properly: actively participates at the meetings of collegial body, and devotes sufficient time to perform his/ her duties as a member of the collegial body. The quorum of each meeting was regulated so the Board of Directors would be enabled to accept decisions constructively.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company acts honestly and without bias with its shareholders. The shareholders are informed on the Company's activities in accordance with the Lithuanian legislation by announcing the information in periodic reports and through the Central information base.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The Company's collegial body conclude transactions according to the Articles of Association of the Company and Work regulations of the collegial body. The Internal Audit and Development Director confirms the transactions when a total yearly value of transactions with a single customer exceeds LTL 100.000, the same rule is applied when any assets exceeding LTL 1 million are bought or sold within a year to/ from a single customer.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	The Company's Board members are not independent from the Executive management of the Company, because members of the Board are the Company's employees. The Board of Directors pursue the Work Regulations of the Board in order to pass decisions. They work for benefit of the Company, and ensure continuous rise of shareholder value.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	There is a Development and Auditing Committee in the Company. It is made of 2 members. The Internal Auditing and Development Director is a Board member with the highest economical education, and he is a specialist of internal auditing. Development and Auditing Committee is an independent, and objective committee carrying out the functions of supervision, analyzing, evaluation and consultation in order to improve general organization and create value added. The main function of the Committee is systematic and versatile evaluation, as well as encouragement of better risk management, and sufficient control and maintenance procedures resulting in submission of recommendations. Regulations of Development and Auditing Committee are prepared in accordance with the International Audit Standards. Nomination and Remuneration Committees are not appointed because this function is carried out by the Development and Auditing Committee.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	Following its regulations, Development and Auditing Committee submits recommendations to the collegial body in relation with resolutions made by the collegial body. The collegial body remains fully responsible for the decisions made within its competence and accepts final decisions.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	Development and Auditing Committee is made of two members, one of which is the Internal Auditing and Development Director who is also the Board member. The other member is an employee of the Company.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The Board of Directors approve the Work Regulations of the Development and Auditing Committee. The Committee is accountable to the Board of Directors.

4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	The CEO of the Company participates at the meetings of the Committee as well as other employees related with the discussed issues.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	There is not a Nomination Committee in the Company. In general its functions are carried out by the Development and Auditing Committee.

4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of	No	There is not a Remuneration Committee in the Company. An issue of forming such a committee or passing this Committee functions to another committee will be discussed.

other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to	Yes	Development and Auditing Committee is an independent, and objective committee carrying out the functions of supervision, analyzing, evaluation and consultation in order to improve general organization and create value added. The main function of the Committee is systematic and versatile evaluation, as well as encouragement of better risk management, and sufficient control and maintenance procedures resulting in submission of recommendations to the Board of Directors and executive management in order to implement set objectives. Regulations of Development and Auditing Committee are prepared in accordance with the International Audit Standards.

the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial		

body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	There is no practice of collegial body assessment.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Board of Directors is chaired by the Board Chairman acting in accordance with the approved Work Regulations. The Board Chairman is responsible for sufficient information about the meeting being convened and its agenda communication to all members of the body. He/ she also ensures order and working atmosphere during the meeting.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time, i.e. not less than once per three month period. 5 (five) days prior a meeting each Board member is provided with the announcement of the meeting to be convened and its agenda. Planned Board meetings are convened by the Board Chairman, in his absence – the Deputy Board Chairman.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	5 (five) days prior a meeting each Board member is provided with the announcement of the meeting to be convened and its agenda. Planned Board meetings are convened by the Board Chairman, in his absence – the Deputy Board Chairman. The agenda might be supplemented only if all members of the Board of Directors present at he meeting, and they all agree that the item is important enough to be put on the agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The Company does not have a Supervisory Board and this statement is not applied.
Principle VI: The equitable treatment of shareholders and shareholder rights		

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's Authorized capital is made of 4 746 270 ordinary registered shares. Share par value is LTL 10 litas. All company's owners have the same property and non-property rights, except treasury shares are not entitled to enjoy these rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	Investors have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	An approval by general meeting of shareholders is received foe important transactions, pursuing the Law on the Joint Stock Companies and the Articles of Association. Such proposed resolutions are announced to the shareholders in advance.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	General meeting of shareholders is convened according to the Law on Joint Stock Companies. General meetings of shareholders are held in the head office in Rokiškis. All shareholders have the right to receive related information prior the meeting as it is regulated by the Law on Joint Stock Companies, not later than 10 days prior the meeting. A number of responsible person is announced publicly so the information on the meeting and items on agenda could be provided.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Pursuing the Law on Joint Stock Companies all documents prepared for the general meeting of shareholders, including draft resolutions, are published in both Lithuanian and English in VVPB webpage not later than 10 days prior the meeting. The approved by general shareholders' meeting resolutions, including financial results, audit report, the company's performance report (annual report), changes of Articles of Association etc are published in Lithuanian and English through the information system of national stock exchange website.

6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the company have the right to participate at general meeting of shareholders personally or appoint a representative if there is a proper Power of Attorney or Agreement to pass votes according to the applicable legislation. Also, the Company provides its shareholders with the right to fill in a common voting bulletin as it is required by the Law on Joint Stock Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	This statement is not followed because there is no possibility to identify a signature of shareholder and text security is not secured.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The company follows these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	

7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The company follows the recommendation. A Board member abstains from voting, when discussing the transactions or other issues in which he/ she has certain interests.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The company announces just the general information on the management's compensation levels and average salary of specialists and workers. This information is announced publicly in the annual report – prospect. Other information is not announced publicly.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The information announced as in point 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes	Yes	As from 2004, a system of remuneration is applied which ensures all statements of this point are respected. The system is approved by the CEO.

for directors.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	As there is not a Remuneration Committee, it is respected only the statements of point 8.3. The information on payments and loans for Board members is publicized in the annual prospect – report. The Company plans to consider these statements.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The company does not announce publicly its remuneration system, because it is considered as confidential information. The company provides the information as it is required by the Law on Joint Stock Companies.

8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any	No	In the annual report the company discloses information such as yearly paid salaries and average wages falling on a Board member and a member of Administration. Also, there is information on loans, and guarantees and warrants. The Company's annual report is announced in the company's website and through the information system of national stock exchange website.

time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements are not applied.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		

8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework assure the rights of stakeholders that are protected by law are respected. Also it is ensured the interest holders are able to

<table>
<tr><td>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.</td><td rowspan="2"></td><td rowspan="2">participate in governance. For example, participation of the company’s employees and raw milk suppliers in the company governance. The greatest part of shareholders are the company’s employees and raw milk suppliers. In 1994, raw milk suppliers enjoyed acquisition of shares depending on milk supplied. The interest holders have the right to receive information required.</td></tr>
<tr><td>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</td></tr>
<tr><td colspan="3">Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</td></tr>
</table>

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	Information concerning the company and related subsidiaries is disclosed in both Lithuanian and English languages in the annual and interim reports, by notices on stock events, financial accountability, prepared in accordance with the International Accounting Standards. This information is announced via information disclosing system of national stock exchange. Also the company provides information concerning yearly paid salaries and average wages falling on a Board member and a member of Administration. Also, there is information on loans, and guarantees and warrants, and levels of tantiemes paid for collegial body.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Via the information disclosure system of Vilnius Stock Exchange, the Company provides reports in the Lithuanian and English languages. The Stock Exchange places the information in its data base so the information would be accessible to each shareholder. In addition, the company when possible provides information before or after trading sessions and to all markets where the company's shares are traded. The company does not disclose any information possibly influencing share price prior it is announced publicly via the stock exchange data base.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	In the company's website, the company publishes its annual and interim reports in Lithuanian and English. In the future the company will present there all information disclosed via the stock exchange information system in order to enable accessibility to every shareholder.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	In the company's website, the company publishes its annual and interim reports in Lithuanian and English. In the future the company will present there notices on stock events. .
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent audit firm prepares the Company's annual financial accounts and verifies annual reports.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Board of Directors proposes an auditing firm to the general meeting of shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	No	The information concerning services provided by the audit firm other than auditing is submitted to Securities Commission when agreeing candidature of auditing firm. Such and information is not provided to the general meeting of shareholders.