AB ŽEMAITIJOS PIENAS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AB ŽEMAITIJOS PIENAS

We have audited the accompanying balance sheet of AB Žemaitijos Pienas (a joint stock company registered in the Republic of Lithuania, "the Company") and the consolidated balance sheet of AB Žemaitijos Pienas and its subsidiaries AB Telšių Autoservisas, UAB Žemaitijos Pieno Žaliava, ŽŪK Tarpučių Pienas, ŽŪK Sodžiaus Pienas ("the Group") as of 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

Jonas Akelis Auditor's licence No. 000003	Ramūnas Bartašius Auditor's licence No. 000362

The audit was completed on 14 February 2006.

Balance sheets

	Notes	Group		Company	
		As of 31 December 2005	As of 31 December 2004	As of 31 December 2005	As of 31 December 2004 (Restated)
ASSETS					
Non-current assets					
Intangible assets	5	424	240	420	233
Property, plant and equipment	6	48,459	43,722	46,853	41,496
Investment property	7	-	4,924	-	4,924
Available for sale investments		20	20	20	20
Investments into subsidiaries	1	-	-	1,000	1,000
Non-current receivables	8	2,543	2,188	2,543	2,188
Deferred income tax asset	21	197	104	197	104
Total non-current assets		**51,643**	**51,198**	**51,033**	**49,965**
Current assets					
Inventories	9	48,608	52,780	48,601	52,771
Prepayments		1,259	1,430	1,257	1,402
Trade receivables	10	23,145	12,922	23,131	12,922
Receivables from subsidiaries		-	-	527	527
Receivables from other related parties	26	7,787	2,807	7,633	2,738
Other receivables	19	8,762	3,134	8,753	3,135
Cash and cash equivalents	11	13,097	12,934	12,652	12,733
Total current assets		**102,658**	**86,007**	**102,554**	**86,228**
Total assets		**154,301**	**137,205**	**153,587**	**136,193**

The accompanying notes are an integral part of these financial statements.

Balance sheets (cont'd)

		Group		Company	
	Notes	As of 31 December 2005	As of 31 December 2004	As of 31 December 2005	As of 31 December 2004 (Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY					
Equity attributable to equity holders of the parent					
Share capital	1, 12	48,375	37,000	48,375	37,000
Share surplus	12	-	2,760	-	2,760
Legal reserve	12	3,700	3,700	3,700	3,700
Other reserves	12	-	3,540	-	3,540
Retained earnings		10,541	6,075	10,837	6,813
		62,616	53,075	62,912	53,813
Minority interest		**1,037**	**1,037**	**-**	**-**
Total shareholders' equity		**63,653**	**54,112**	**62,912**	**53,813**
Non-current liabilities					
Grants received	13	3,941	5,834	3,277	4,831
Non-current borrowings	14	26,214	46,550	26,214	46,550
Non-current borrowings from related parties	26	-	2,040	-	-
Leasing liabilities	15	3,820	1,787	3,820	1,787
Other non-current liabilities		91	901	91	901
Total non-current liabilities		**34,066**	**57,112**	**33,402**	**54,069**
Current liabilities					
Current portion of non-current borrowings	14	23,497	2,196	23,497	2,196
Current portion of non-current leasing liabilities	15	1,615	758	1,615	758
Trade payables		18,393	15,452	17,623	14,642
Payables to subsidiaries		-	-	4,165	3,625
Payables to other related parties	26	9,208	3,135	7,116	3,105
Income tax payable		465	1,131	452	1,110
Other current liabilities	17	3,404	3,309	2,805	2,875
Total current liabilities		**56,582**	**25,981**	**57,273**	**28,311**
Total liabilities and shareholders' equity		**154,301**	**137,205**	**153,587**	**136,193**

The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		14 February 2006
Chief Accountant	Dalia Gecienė		14 February 2006

Income statements

		Group		Company	
	Notes	**2005**	**2004 (Restated)**	**2005**	**2004 (Restated)**
Sales	4	369,258	338,278	369,153	339,385
Cost of sales		(306,068)	(264,798)	(306,581)	(274,570)
Gross profit		**63,190**	**73,480**	**62,572**	**64,815**
Operating expenses	18	(57,666)	(60,396)	(57,701)	(54,645)
Other operating income, net	19	7,175	1,096	7,373	1,177
Profit from operations		**12,699**	**14,180**	**12,244**	**11,347**
(Expenses) from financial and investment activities, net	20	(481)	(3,573)	(480)	(3,578)
Profit before income tax		**12,218**	**10,607**	**11,764**	**7,769**
Income tax	21	(1,937)	(2,062)	(1,925)	(1,468)
Net profit		**10,281**	**8,545**	**9,839**	**6,301**
Attributable to:					
Shareholders of the Company		10,281	8,190	9,839	6,301
Minority		-	355	-	-
		10,281	**8,545**	**9,839**	**6,301**
Basic and diluted earnings per share (LTL)	22	2.13	1.72		
Net profit			**8,545**		**6,301**
Gain on sold own shares, net of income tax	3		2,886		3,718
Equity method application on subsidiaries	3		-		1,171
Net profit as reported before			**11,431**		**11,190**

The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		14 February 2006
Chief Accountant	Dalia Gecienė		14 February 2006

Statements of changes in equity

Group		Attributable to shareholders of the Company							Minority interest	Total
	Notes	Share capital	Share surplus	Legal reserve	Other reserves	Own shares	Retained earnings	Total		
Balance as of 31 December 2003		**37,000**	**2,760**	**2,874**	**-**	**(1,137)**	**40,759**	**82,256**	**4,791**	**87,047**
Dividends paid	23	-	-	-	-	-	(529)	(529)	-	(529)
Transfer to reserves		-	-	826	39,394		(40,220)	-	-	-
Transfer during reorganisation	1	-	-	-	(35,854)	-	(5,125)	(40,979)	(3.995)	(44.974)
Sale of own shares	1	-	-	-	-	1,137	-	1,137	-	1,137
Gain on sold own shares, net of income tax	3	-	-	-	-	-	3,000	3,000	(114)	2,886
Net profit for the year (restated)		-	-	-	-	-	8,190	8,190	355	8,545
Balance as of 31 December 2004		**37,000**	**2,760**	**3,700**	**3,540**	**-**	**6,075**	**53,075**	**1,037**	**54,112**
Transfer to share capital	12	11,375	(2,760)	-	(3,540)	-	(5,075)	-	-	-
Dividends paid	23	-	-	-	-	-	(740)	(740)	-	(740)
Net profit for the year		-	-	-	-	-	10,281	10,281	-	10,281
Balance as of 31 December 2005		**48,375**	**-**	**3,700**	**-**	**-**	**10,541**	**62,616**	**1,037**	**63,653**

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Share surplus	Legal reserve	Other reserves	Own shares	Retained earnings	Total
Balance as of 31 December 2003		**37,000**	**2,760**	**2,874**	**-**	**(1,137)**	**40,759**	**82,256**
Change in accounting policy	3	-	-	-	-	-	1,909	1,909
Balance as of 31 December 2003 (restated)		**37,000**	**2,760**	**2,874**	**-**	**(1,137)**	**42,668**	**84,165**
Dividends paid	23	-	-	-	-	-	(529)	(529)
Transfer to reserves		-	-	826	39,394		(40,220)	-
Transfer during reorganisation	1	-	-	-	(35,854)	-	(5,125)	(40,979)
Sale of own shares	12	-	-	-	-	1,137	-	1,137
Gain on sold own shares, net of income tax		-	-	-	-	-	3,718	3,718
Net profit for the year (restated)		-	-	-	-	-	6,301	6,301
Balance as of 31 December 2004		**37,000**	**2,760**	**3,700**	**3,540**	**-**	**6,813**	**53,813**
Transfer to share capital	12	11,375	(2,760)	-	(3,540)	-	(5,075)	-
Dividends paid	23	-	-	-	-	-	(740)	(740)
Net profit for the year		-	-	-	-	-	9,839	9,839
Balance as of 31 December 2005		**48,375**	**-**	**3,700**	**-**	**-**	**10,837**	**62,912**

The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		14 February 2006
Chief Accountant	Dalia Gecienė		14 February 2006

Cash flow statements

	Notes	Group 2005	Group 2004 (Restated)	Company 2005	Company 2004 (Restated)
Cash flows from operating activities					
Net profit		10,281	8,545	9,839	6,301
Adjustments for non-cash items:					
Depreciation and amortisation		13,391	15,256	12,733	13,154
Amortisation of grants received		(1,893)	(1,843)	(1,554)	(1,554)
(Profit) / loss from disposal and write-offs of property, plant and equipment and intangible assets		(183)	62	(183)	42
Allowance for receivables		-	80	-	81
Income tax expenses		1,937	2,062	1,925	1,468
(Adjustment) of net realisable value of inventories		48	(1,617)	45	(1,619)
Compensation on losses incurred	19	(5,338)	-	(5,338)	-
Other non-cash expenses		1,433	3,159	1,432	3,112
		19,676	25,704	18,899	20,985
Changes in working capital:					
Decrease (increase) in inventories		4,124	3,938	4,125	(2,058)
(Increase) in receivables		(17,243)	(8,315)	(15,104)	(4,630)
Decrease (increase) in prepayments and other current assets		171	(391)	145	(296)
Decrease in other receivables		716	-	727	-
Increase (decrease) in trade payables, payables to related parties and payables to subsidiaries		9,014	(591)	7,532	4,940
Income tax (paid)		(2,701)	(2,972)	(2,681)	(1,816)
(Decrease) increase in other current liabilities		(747)	1,667	(912)	(198)
Net cash flows from operating activities		**13,010**	**19,040**	**12,731**	**16,927**
Cash flows (to) investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(8,885)	(13,879)	(8,850)	(13,504)
Disposal of property, plant and equipment		75	-	75	-
Proceeds from sales of investments		-	83	-	83
Repayment of granted loans		3,937	2,659	3,937	2,659
Non-current loans (granted)		(3,959)	(3,455)	(3,959)	(3,220)
Interest received		245	212	245	212
Net cash flows (to) investing activities		**(8,587)**	**(14,380)**	**(8,552)**	**(13,770)**

The accompanying notes are an integral part of these financial statements.

Cash flow statements (cont'd)

	Group		Company	
	2005	**2004**	**2005**	**2004 (Restated)**
Cash flows from (to) financing activities				
Dividends (paid)	(712)	(529)	(712)	(529)
Cash, (transferred) during reorganisation	-	(2,227)	-	-
Loans received	3,108	8,142	3,108	8,142
(Repayment) of loans	(2,196)	(9,238)	(2,196)	(8,885)
Leasing (payments)	(2,383)	(1,624)	(2,383)	(1,465)
(Repayment) of non-current payables for shares	-	(385)	-	(385)
Interest (paid)	(2,077)	(2,006)	(2,077)	(2,006)
Net cash flows (to) financial activities	**(4,260)**	**(7,867)**	**(4,260)**	**(5,128)**
Net increase (decrease) in cash and cash equivalents	**163**	**(3,207)**	**(81)**	**(1,971)**
Cash and cash equivalents at the beginning of the year	**12,934**	**16,141**	**12,733**	**14,704**
Cash and cash equivalents at the end of the year	**13,097**	**12,934**	**12,652**	**12,733**

The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		14 February 2006
Chief Accountant	Dalia Gecienė		14 February 2006

Notes to the financial statements

1 General information

AB Žemaitijos pienas (hereinafter – "the Company") is a joint stock company registered in the Republic of Lithuania. The address of its registered office is as follows:

Sedos Str. 35, Telšiai
Lithuania

The Company produces dairy products and sells them in the Lithuanian and in foreign markets. The Company has established its own retail network with 110 outlets, it also has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984. The Company 's shares are traded on the Official List of the National Stock Exchange.

As of 31 December 2004 the share capital of the Company was LTL 37,000 thousand. On 22 June 2005 the shareholders of the Company approved the increase of the share capital by LTL 11,375 thousand, by issuing additionally 1,137,500 ordinary shares with a nominal value of LTL 10 each (Note 12). As of 31 December 2005 the share capital of the Company was LTL 48,375 thousand, which consisted of 4,837,500 ordinary shares with a nominal value of LTL 10 each. All the shares of the Company are issued, signed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2005, the Company also had no its own shares. As of 31 December 2003 the Company had its own shares, but during 2004 the Company sold them (Note 12).

The largest shareholder of AB Žemaitijos Pienas is the general director of the Company Mr. Algirdas Pažemeckas. As of 31 December 2005 Mr. Algirdas Pažemeckas owned 40.01% of the authorised share capital (as of 31 December 2004 – 26.88%). As of 31 December 2005 Skandinavska Ensilda Banken (investment fund) clients had 11.29% of shares and Mrs. Ona Šunokienė – 5.87% of shares. There is no information available if there is any other single shareholder with the shareholding of 5% or more.

According to the legislation of the Republic of Lithuania, the annual report, including the financial statements, prepared by the Management of the Company should be approved by the General Shareholders' meeting. The shareholders hold the power not to approve the annual report and the right to request a new annual report to be prepared.

On 16 July 2004 reorganisation took place in the Company. By way of dividing during the reorganisation a part of assets and liabilities of AB Žemaitijos Pienas were separated and transferred to a newly established company AB Žemaitijos Pieno Investicija. Upon reorganisation the investments to the subsidiaries of the Company AB Klaipėdos Pienas, ABF Šilutės Rambynas, UAB Baltijos Mineralinių Vandenų Kompanija, UAB Žemaitijos Prekyba and UAB Gimtinės Pienas were transferred to AB Žemaitijos Pieno Investicija. Upon reorganisation the value of net assets (assets less liabilities), which were transferred to AB Žemaitijos Pieno Investicija, was LTL 40,979 thousand. As a result of the reorganisation, the income of the Company did not decrease significantly as sales of the companies of AB Žemaitijos Pieno Investicija group were mostly to the Group, which is engaged in sales to the end customers.

As of 31 December 2005 the Group consisted of AB Žemaitijos Pienas and the following subsidiaries (hereinafter referred to as „the Group"):

Company	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
AB Telšių Autoservisas	Mažeikių Str. 4, Telšiai, Lithuania	37.49%	100%	393	(2)	(110)	Repair of vehicles
UAB Žemaitijos Pieno Žaliava	Sedos Str. 35, Telšiai, Lithuania	100.00%	100%	1,000	(3)	737	Milk collection services
ŽŪK Tarpučių Pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10.08%	100%	50	15	445	Milk collection services
ŽŪK Sodžiaus Pienas	Šilalės Str. 35, Laukuva, Lithuania	15.09%	100%	105	261	1,164	Milk collection services

1 General information (cont'd)

According to local legislation, ŽŪK Tarpučių Pienas ir ŽŪK Sodžiaus Pienas are considered subsidiaries. AB Telšių Autoservisas is considered subsidiary because AB Žemaitijos Pienas controls its activities, although it owns less than 50% of the shares. AB Telšių Autoservisas had no active operations in 2005 and 2004.

As of 31 December 2005, the number of employees of the Company was 2,021 (as of 31 December 2004 – 2,072). As of 31 December 2005, the number of employees of the Group was 2,179 (as of 31 December 2004 – 2,272).

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2005 are as follows:

2.1. Basis of preparation

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

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective from 1 March 2006);
- amendments to IFRS 1 First-time Adoption of IFRS and the Basis for Conclusions of IFRS 7 - Financial instruments: Disclosures (effective from 27 January 2006);
- Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 27 January 2006).

The Company expects that adoption of the pronouncements listed above in the future will have no significant impact on the Company's financial statements.

Financial year of the Company coincides with the calendar year.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL). Litas is also a functional currency of the Group and the Company.

Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Consolidation principles

The consolidated financial statements of the Group include AB Žemaitijos Pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

2 Accounting principles (cont'd)

2.3 Consolidation principles (cont'd)

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

Investments in associated companies where significant influence is exercised by AB Žemaitijos Pienas are accounted for in the consolidated financial statements using the equity method. In the separate financial statements of the Company these investments are accounted at acquisition cost less impairment losses. An assessment of valuation of impairment losses is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

All other investments are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as further disclosed in section 2.7.

Intercompany balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

2.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Company and the Group do not have any intangible assets with indefinite useful life, therefore after initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Company expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

2.5. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following average estimated useful lives of the assets:

Buildings	20 - 40 years
Machinery and equipment	5 years
Vehicles and other equipment	4 - 10 years

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

2 Accounting principles (cont'd)

2.6. Investment property

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful live of 40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

2.7. Investments

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The category 'financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.8. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory is fully written-off.

2.9. Receivables and loans granted

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2 Accounting principles (cont'd)

2.10. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

2.11. Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings.

2.12. Financial and operating leases

Financial lease

The Company and the Group recognize financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, Company's composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Company's and the Group's income statement for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets can not be depreciated over the period longer than lease term, unless the Company or the Group, according by the lease contract, gets transferred their ownership after the lease term is over.

If the result of sales and lease back transactions is financial lease, any profit from sales exceeding the book value is not recognised as income immediately. It is postponed and amortised over the lease term.

Operating lease

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2 Accounting principles (cont'd)

2.13. Grants

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the income statement, a relevant expense account is reduced by the amount of grant amortisation.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilised grants is shown in caption "Grants received" on the balance sheet.

2.14. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

In 2005 and 2004 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law will come into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies will have to pay an additional 4% tax calculated based on the income tax principles, and for the following year starting from 1 January 2007 a 3% tax. After the year 2007 m. the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

2.15. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

2.16. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

2 Accounting principles (cont'd)

2.17. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

2.18. Segments

In these financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Group and the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

Financial information about business and geographical segments is presented in Note 4 to these financial statements.

2.19. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date and when where is evidence of impairment.

For financial assets carried at amortised cost, whenever it is probable that the and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.20. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.21. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2 Accounting principles (cont'd)

2.22. Subsequent events

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2.23. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3 Changes in accounting policies, accounting estimates and correction of errors

Equity method application

In 2005 the Company adopted a revised IAS 27 Consolidated and Separate Financial Statements and accordingly changed the accounting method for subsidiaries in the separate Parent company's financial statements from equity method to the cost method. The change in accounting principle was applied retrospectively and the effect of adopting the revised IAS 27 of LTL 1,909 thousand has been accounted directly in the opening equity balance of 2004 in the Company's statement of changes in equity.

The effect of change in accounting policies on the financial statements of 2005, which was accounted for by adjusting comparative figures of 2004, is as follows:

- The value of investments was increased by LTL 562 thousand;
- The amount of other liabilities was decreased by LTL 176 thousand;
- The income from financial and investing activities for the year ended 31 December 2004 was decreased by LTL 1,171 thousand;
- The retained earnings at the beginning of the year were increased by LTL 1,909 thousand (the amount of correction related to periods before the year ended 31 December 2004).

The change in accounting principle had no effect on the income statement of the Group, and, therefore, no effect on the earnings per share.

Accounting for profit on sold own shares

In 2004 the Company sold own shares and recognized a profit earned amounting to LTL 4,374 thousand (LTL 3,542 thousand in the consolidated Group financial statements) in the income statement under financial income caption. Related income tax amounting to LTL 656 thousand was accounted for under the income tax line in the income statement. According to IAS 32 Financial Instruments: Disclosure and Presentation, the gain from own equity instruments should be accounted for directly under equity. In 2005 the Company corrected the comparative information applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors provisions retrospectively. Due to this correction, the net profit of the Company and the Group for the year ended 31 December 2004 decreased by LTL 3,718 thousand and LTL 2,886 thousand respectively with no effect on the equity balances as of 31 December 2004.

Due to this correction the earnings per share for the year 2004 decreased by LTL 0.63.

4 Segment information

For management purposes the activities of the Group and the Company are organised as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group		Company	
	2005	**2004**	**2005**	**2004**
Sales				
Lithuania	217,211	195,021	217,066	196,128
Other Baltic States and CIS countries	62,435	49,583	62,435	49,583
Other European countries	75,452	63,532	75,452	63,532
USA	13,426	27,290	13,426	27,290
Other	734	2,852	774	2,852
	369,258	338,278	369,153	339,385

The expenses of the Company and the Group, incurred in 2005 by the acquisition of property, plant and equipment and intangible assets, accounted for respectively LTL 13,608 thousand and LTL 13,643 thousand (respectively LTL 15,223 thousand and LTL 15,606 thousand in 2004). As all assets of the Company and the Group are in Lithuania, all acquisitions are related with the geographical segment of Lithuania.

5 Intangible assets

2005	Group	Company
Cost:		
Balance as of 31 December 2004	302	293
Additions	466	466
Retirements	(233)	(233)
Balance as of 31 December 2005	535	526
Amortisation:		
Balance as of 31 December 2004	62	60
Charge for the year	153	150
Retirements	(104)	(104)
Balance as of 31 December 2005	111	106
Net book value as of 31 December 2005	**424**	**420**
Net book value as of 31 December 2004	**240**	**233**

2004 Group	Negative goodwill	Other intangible assets	Total
Cost:			
Balance as of 31 December 2003	(5,115)	1,608	(3,507)
Additions	-	374	374
Transferred during reorganisation	5,115	(1,524)	3,591
Retirements	-	(156)	(156)
Balance as of 31 December 2004	-	302	302
Amortisation:			
Balance as of 31 December 2003	(4,785)	882	(3,903)
Charge for the year	(20)	144	124
Transferred during reorganisation	4,805	(838)	3,967
Retirements	-	(126)	(126)
Balance as of 31 December 2004	-	62	62
Net book value as of 31 December 2004	**-**	**240**	**240**
Net book value as of 31 December 2003	**(330)**	**726**	**396**

5 Intangible assets (cont'd)

Negative goodwill

Upon acquisition of ABF Šilutės Rambynas shares in 1995, AB Žemaitijos Pienas recorded a negative goodwill amounting to LTL 4,715 thousand. In 2002 AB Žemaitijos Pienas has acquired additional shares of ABF Šilutės Rambynas. During the acquisition, additional negative goodwill of LTL 400 thousand was recorded. The negative goodwill was being amortised on a straight-line basis over a 10-year period by the Group. The amortisation of the negative goodwill for the period 1 January 2004 to 16 July 2004, equal to LTL 20 thousand, is presented in the operating expenses in the income statement, by decreasing the depreciation expenses of property, plant and equipment.

As the shares of ABF Šilutės Rambynas were transferred to AB Žemaitijos Pieno Investicija upon reorganisation, the negative goodwill related to these shares was also transferred to AB Žemaitijos Pieno Investicija. The net book value of the negative goodwill at the transfer was equal to LTL 310 thousand.

2004 Company	Other intangible assets
Cost:	
Balance as of 31 December 2003	1,582
Additions	358
Transferred during reorganisation	(1,467)
Retirements	(180)
Balance as of 31 December 2004	293
Amortisation:	
Balance as of 31 December 2003	867
Charge for the year	140
Transferred during reorganisation	(796)
Retirements	(151)
Balance as of 31 December 2004	60
Net book value as of 31 December 2004	**233**
Net book value as of 31 December 2003	**715**

Amortisation expenses of intangible assets are included within operating expenses in the income statement.

6 Property, plant and equipment

2005 Group	**Land, buildings and construc-tions**	**Machinery and equipment**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress**	**Total**
Cost:						
Balance as of 31 December 2004	14,297	74,974	3,902	11,537	-	104,710
Additions	721	1,441	7,768	1,885	1,362	13,177
Disposed, transferred or written-off assets	-	(353)	(68)	(320)	-	(741)
Transfers from investment property	6,491	-	-	-	-	6,491
Reclassifications	38	801	-	523	(1,362)	-
Balance as of 31 December 2005	21,547	76,863	11,602	13,625	-	123,637
Accumulated depreciation:						
Balance as of 31 December 2004	4,224	48,449	2,438	5,800	-	60,911
Charge for the year	833	8,576	1,393	2,357	-	13,159
Disposed, transferred or written-off assets	-	(448)	(40)	(127)	-	(615)
Transfers from investment property	1,646	-	-	-	-	1,646
Reclassifications	-	-	6	(6)	-	-
Balance as of 31 December 2005	6,703	56,577	3,797	8,024	-	75,101
Impairment losses:						
Balance as of 31 December 2004	-	-	2	75	-	77
Charge for the year	-	-	-	-	-	-
Balance as of 31 December 2005	-	-	2	75	-	77
Net book value as of 31 December 2005	**14,844**	**20,286**	**7,803**	**5,526**	**-**	**48,459**
Net book value as of 31 December 2004	**10,073**	**26,525**	**1,462**	**5,662**	**-**	**43,722**

6 Property, plant and equipment (cont'd)

2004 Group	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2003	35,531	81,575	25,595	33,636	4,834	181,171
Additions	968	4,987	2,611	2,643	4,023	15,232
Disposed, transferred or written-off assets	(5,301)	(8,330)	(15,676)	(6,483)	(3,820)	(39,610)
Assets of subsidiaries, transferred upon reorganisation	(10,946)	(6,220)	(8,700)	(18,816)	(910)	(45,592)
Reclassifications	536	2,962	72	557	(4,127)	-
Transfers to investment property	(6,491)	-	-	-	-	(6,491)
Balance as of 31 December 2004	14,297	74,974	3,902	11,537	-	104,710
Accumulated depreciation:						
Balance as of 31 December 2003	10,250	45,976	17,007	20,230	-	93,463
Charge for the year	919	9,672	1,504	2,905	-	15,000
Disposed, transferred or written-off assets	(1,789)	(2,695)	(9,174)	(3,471)	-	(17,129)
Assets of subsidiaries, transferred upon reorganisation	(3,721)	(4,504)	(6,899)	(13,864)	-	(28,988)
Transfers to investment property	(1,435)	-	-	-	-	(1,435)
Balance as of 31 December 2004	4,224	48,449	2,438	5,800	-	60,911
Impairment losses:						
Balance as of 31 December 2003	57	-	2	2,417	666	3,142
Charge for the year	-	-	-	122	35	157
Assets of subsidiaries, transferred during reorganisation	(57)	-	-	(2,464)	(701)	(3,222)
Balance as of 31 December 2004	-	-	2	75	-	77
Net book value as of 31 December 2004	**10,073**	**26,525**	**1,462**	**5,662**	**-**	**43,722**
Net book value as of 31 December 2003	**25,224**	**35,599**	**8,586**	**10,989**	**4,168**	**84,566**

As described in more detail in Note 1 of these financial statements, in 2004 the Company was reorganised, by transferring a part of assets and liabilities to a newly established company AB Žemaitijos Pieno Investicija, the transfer of the assets is presented in separate captions of the parts of the acquisition cost, accumulated depreciation and impairment losses in the Group table presented above.

A part of property, plant and equipment of the Company was also transferred to AB Žemaitijos Pieno Inveticija during reorganisation. The net book value of these assets was LTL 20,043 thousand at the moment of transfer. The Company can not separate the acquisition cost and accumulated depreciation of transferred assets to AB Žematijos Pieno Investicija by the groups of assets, therefore these assets are presented in the same caption as other transferred, disposed or written-off assets.

6 Property, plant and equipment (cont'd)

2005 Company	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2004	13,841	73,441	3,867	9,668	-	100,817
Additions	693	1,435	7,768	1,884	1,362	13,142
Disposed, transferred or written-off assets	-	(353)	(68)	(320)	-	(741)
Transfers from investment property	6,491	-	-	-	-	6,491
Reclassifications	38	801	-	523	(1,362)	-
Balance as of 31 December 2005	21,063	75,324	11,567	11,755	-	119,709
Accumulated depreciation:						
Balance as of 31 December 2004	4,157	47,836	2,405	4,923	-	59,321
Charge for the year	802	8,257	1,393	2,052	-	12,504
Disposed, transferred or written-off assets	-	(448)	(40)	(127)	-	(615)
Transfers from investment property	1,646	-	-	-	-	1,646
Reclassifications	-	-	6	(6)	-	-
Balance as of 31 December 2005	6,605	55,645	3,764	6,842	-	72,856
Net book value as of 31 December 2005	**14,458**	**19,679**	**7,803**	**4,913**	**-**	**46,853**
Net book value as of 31 December 2004	**9,684**	**25,605**	**1,462**	**4,745**	**-**	**41,496**

6 Property, plant and equipment (cont'd)

2004 Company	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2003	24,275	73,977	16,726	12,819	3,932	131,729
Additions	819	4,832	2,606	2,593	4,015	14,865
Disposed, transferred or written-off assets	(5,298)	(8,330)	(15,537)	(6,301)	(3,820)	(39,286)
Reclassifications	536	2,962	72	557	(4,127)	-
Transfers to investment property	(6,491)	-	-	-	-	(6,491)
Balance as of 31 December 2004	13,841	73,441	3,867	9,668	-	100,817
Accumulated depreciation:						
Balance as of 31 December 2003	6,713	41,445	10,375	6,149	-	64,682
Charge for the year	483	9,086	1,065	2,083	-	12,717
Disposed, transferred or written-off assets	(1,789)	(2,695)	(9,035)	(3,309)	-	(16,828)
Transfers to investment property	(1,250)	-	-	-	-	(1,250)
Balance as of 31 December 2004	4,157	47,836	2,405	4,923	-	59,321
Net book value as of 31 December 2004	**9,684**	**25,605**	**1,462**	**4,745**	**-**	**41,496**
Net book value as of 31 December 2003	**17,562**	**32,532**	**6,351**	**6,670**	**3,932**	**67,047**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2005 amounts to LTL 13,159 thousand and LTL 12,504 thousand respectively (LTL 15,000 thousand and LTL 12,717 thousand in the year 2004 respectively). Amounts of LTL 2,684 thousand and LTL 2,685 thousand for the year 2005 (LTL 3,913 thousand and LTL 2,774 thousand for the year 2004) have been included into operating expenses in the Group's and the Company's income statement respectively. The remaining amounts have been included into production costs for the year.

Property, plant and equipment of the Group and the Company with a net book value of LTL 23,651 thousand as of 31 December 2005 (LTL 28,913 thousand as of 31 December 2004) was pledged to banks as a collateral for the loans. The related parties AB Klaipėdos Pienas and ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 3,571 thousand and LTL 64 thousand respectively as of 31 December 2005 (Note 14).

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 33,542 thousand was fully depreciated as of 31 December 2005 (LTL 31,084 thousand as of 31 December 2004) but were still in active use.

The Group and the Company applied the requirements of the revised IAS 16 Property, Plant and Equipment relating to accounting of componential property, plant and equipment, but it did not have a material effect on the financial statements.

7 Investment property

2005 m.	Group	Company
Cost:		
Balance as of 31 December 2004	6,491	6,491
Transfers to property, plant and equipment	(6,491)	(6,491)
Balance as of 31 December 2005	-	-
Accumulated depreciation:		
Balance as of 31 December 2004	1,567	1,567
Charge for the year	79	79
Transfers to property, plant and equipment	(1,646)	(1,646)
Balance as of 31 December 2005	-	-
Net book value as of 31 December 2005	**-**	**-**
Net book value as of 31 December 2004	**4,924**	**4,924**

2004	Group	Company
Cost:		
Transfers from property, plant and equipment	6,491	6,491
Balance as of 31 December 2004	6,491	6,491
Accumulated depreciation:		
Transfers from property, plant and equipment	1,435	1,250
Charge for the year	132	317
Balance as of 31 December 2004	1,567	1,567
Net book value as of 31 December 2004	**4,924**	**4,924**

All investment property is rented out to a related party ABF Šilutės Rambynas. ABF Šilutės Rambynas was a subsidiary of the Company till the reorganisation (Note 1) and was included into consolidated financial statements of the Group. The Group's rental income from the investment property for the year 2005 amounted to LTL 79 thousand (in 2004 – LTL 132 thousand). The Company's rental income from the investment property for the year 2005 amounted to LTL 79 thousand (in 2004 – LTL 317 thousand).

In the beginning of April 2005 the Company canceled the rent agreement with ABF Šilutės Rambynas, because all production services provided by ABF Šilutės Rambynas are sold to the Company, therefore the investment property was transferred to property, plant and equipment.

8 Non-current receivables

		Group		Company	
		2005	2004	2005	2004
Held to maturity investments	a)	55	109	55	109
Non-current loans issued	b)	2,488	2,079	2,488	2,079
		2,543	2,188	2,543	2,188

a) Held to maturity investments of the Group and the Company comprise Government bonds held to maturity, which will be repurchased by the Government of Lithuania on a preset schedule during the period of 2006 – 2007.

b) Non-current loans issued balance represents loans issued to the suppliers of raw materials and employees of the Group/Company. Current portion of non-current loans issued amounting to LTL 2,284 thousand as of 31 December 2005 (LTL 2,668 thousand as of 31 December 2004) is included in accounts receivable balance in these financial statements.

The maturity of non-current loans issued by the Group and the Company are as follows:

	As of 31 December 2005
Within one year	2,284
From one to five years	2,347
After five years	141
Total	4,772

Part of these loans is non-interest bearing. The fair value of non-interest bearing loans issued is assessed using the effective interest rate for similar borrowings (5% in 2005 and 2004) and are stated at amortised cost.

9 Inventories

	Group		Company	
	2005	2004	2005	2004
Raw materials	13,064	12,971	13,027	12,932
Finished goods and work in process	34,271	38,245	34,271	38,245
Goods for resale	1,303	1,594	1,303	1,594
	48,638	52,810	48,601	52,771
Less: allowance	(30)	(30)	-	-
	48,608	52,780	48,601	52,771

The acquisition cost of the Group's inventories accounted for at net realisable value as of 31 December 2005 amounted to LTL 30 thousand (LTL 30 thousand as of 31 December 2004).

In 2005 the Group and the Company wrote off unusable inventories amounting to LTL 48 thousand (in 2004 there were no inventories written-off). This amount is accounted in the operating expenses in the income statement.

As described in Note 14, in order to ensure the repayment of the loan received, the Group pledged inventories with total value of LTL 32,000 thousand as of 31 December 2005 (LTL 32,000 thousand as of 31 December 2004).

10 Trade receivables

	Group		Company	
	2005	2004	2005	2004
Trade receivables, gross	23,176	13,128	23,162	13,128
Less: allowance for doubtful trade receivables	(31)	(206)	(31)	(206)
	23,145	12,922	23,131	12,922

Changes in allowance for doubtful trade receivables for 2005 and 2004 have been included into operating expenses in the income statement.

The change in allowance for trade receivables had on effect to the profit of the Company and the Group of 2005, because the Company wrote off the trade receivables, for which this allowance was already accounted for.

11 Cash and cash equivalents

	Group		Company	
	2005	2004	2005	2004
Cash at bank	10,466	10,669	10,054	10,475
Cash on hand	2,631	2,265	2,598	2,258
	13,097	12,934	12,652	12,733

12 Shareholders' equity

Share capital

	Shares (thousand)		Shareholders' equity (LTL thousand)	
	2005 m.	2004 m.	2005 m.	2004 m.
Ordinary shares issued as of 1 January	3,700	3,700	37,000	37,000
Ordinary shares issued	1,138	-	11,375	-
Ordinary shares issued as of 31 December	4,838	3,700	48,375	37,000

The nominal value of the ordinary share is LTL 10.

On 22 June 2005 the General Shareholders' meeting decided to increase the share capital of the Company by LTL 11,375 thousand, by issuing 1,137,500 ordinary shares with the nominal value of LTL 10. The share capital was increased from retained earnings (LTL 5,075 thousand), other reserves (LTL 3,540 thousand) and share surplus (LTL 2,760 thousand).

Share surplus

Share surplus is accounted, when the shares are sold at higher than nominal value. According to Lithuanian legislation, share surplus can not be distributed, but only transferred to the share capital. As described in the paragraph above, in 2005 the Company converted share surplus into share capital.

12 Shareholders' equity (cont'd)

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. When distributing the profit for the 2004, the transfer to this reserve was not made, because the legal reserve had reached 10% of share capital. Because the share capital of the Company was increased in 2005, it will have to make additional transfer of at least LTL 489 thousand when distributing the profit for the year 2005.

Other reserves

Other reserves are formed based on a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than legal reserve should be restored to retained earnings and redistributed. As described in section Share Capital of this note, in 2005 the Company increased the share capital by using other reserves.

Own shares

In 2001 the Company purchased 173,301 shares (4.68% of the authorised capital) for LTL 1,137 thousand and accounted for them at acquisition cost. In 2004 the Company sold its shares to AB Klaipėdos Pienas at the market value valid at that time. AB Klaipėdos Pienas was transferred to a newly established company AB Žemaitijos Pieno Investicija upon the reorganisation.

13 Grants received

	Group	Company
Grants received:		
Balance as of 31 December 2004	9,338	7,723
Additions	-	-
Balance as of 31 December 2005	9,338	7,723
Accumulated amortisation:		
Balance as of 31 December 2004	3,504	2,892
Charge for the year	1,893	1,554
Balance as of 31 December 2005	5,397	4,446
Net book value as of 31 December 2005	**3,941**	**3,277**
Net book value as of 31 December 2004	**5,834**	**4,831**

On 11 April 2002 the Company signed a financing agreement with the National Payment Agency at the Ministry of Agriculture (the "NMA") in relation to the Company's Modernisation Project (the "Project"). The financing is provided from the European Commission (EC) Aid and National Budget in accordance with SAPARD financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The NMA obliged to provide the Company with a total financing of LTL 7,723 thousand for the implementation of the Project, approved by the NMA on 29 March 2002. 75% of the support was provided by the EC and the remaining 25% - by the National Budget. The net book value of the grant was LTL 3,277 thousand as of 31 December 2005 (LTL 4,831 thousand as of 31 December 2004).

13 Grants received (cont'd)

Additionally, in 2003 subsidiaries ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas received financing amounting to LTL 611 thousand and LTL 1,005 thousand, respectively, from the National Payment Agency at the Ministry of Agriculture for the acquisition of milk refrigeration equipment. The financing was provided from the European Commission Aid and the National Budget in accordance with SAPARD financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The net book value of the grants received by ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas was equal to LTL 244 thousand and LTL 420 thousand respectively as of 31 December 2005 (LTL 367 thousand and LTL 636 thousand respectively as of 31 December 2004).

The amortisation of the financing was offset against depreciation and accounted under depreciation and amortisation caption under cost of sales in the statement of income for 2005 and 2004. The grant financing is amortised in equal parts over the depreciation period of the assets acquired using the financing received.

14 Borrowings

	Group		Company	
	2005	**2004**	**2005**	**2004**
Non-current borrowings				
Bank borrowings secured by Group's and related parties' assets	26,214	46,550	26,214	46,550
Current borrowings				
Current portion of non-current borrowings	23,497	2,196	23,497	2,196
	49,711	48,746	49,711	48,746

Terms of repayment of non-current borrowings are as follows:

	As of 31 December 2005	
	Fixed interest rate	**Variable interest rate**
2006	16,000	7,444
2007	20,717	2,196
2008	-	2,196
2009	-	1,158
	36,717	12,994

14 Borrowings (cont'd)

Parts of borrowings of the Group and the Company at the end of the year in national and foreign currencies (amounts in the table are presented in LTL thousand):

	Group	
	2005	**2004**
Borrowings denominated in:		
EUR	43,650	32,746
LTL	6,061	16,000
	49,711	48,746

As of 31 December 2005 the weighted average effective interest rate of borrowings outstanding was 3.82% (4.07% as of 31 December 2004). Variable interest rates vary depending on 6 months EUR LIBOR.

For granted loans the Group and the Company has pledged inventories for LTL 32,000 thousand (Note 9) and property, plant and equipment with the net book value of LTL 23,651 thousand (Note 6) as of 31 December 2005. The related parties AB Klaipėdos Pienas and ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 3,571 thousand and LTL 64 thousand respectively as of 31 December 2005.

The Company has to comply with the covenants set by the banks on the period of credit validity. The main financial covenants set in the credit agreements are as follows:

- the ratio of current assets to sales (denominated in percents), which is calculated at the end of each quarter, should not exceed 33%, and at the peak (due to seasonal fluctuations of the operations for the period not exceeding three months consecutively during the year) should not exceed 38%;
- the coefficient of loan servicing, calculated at the end of each quarter, should be for not less than 1.2;
- financial liabilities to EBITDA ratio should not exceed 3;
- capital and reserves (including grants) to all assets ratio should be not less than 40%.

Without these ratios there are other covenants set to the Company in the agreements of the loans. In 2005 the Company complied with all covenants set in the long-term loans agreements.

15 Financial lease

The assets leased by the Group and the Company under financial lease contracts consist of vehicles, refrigerators and curd production line. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are up to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
Equipment	480	2,169	480	2,169
Vehicles	3,898	-	3,898	-
	4,378	2,169	4,378	2,169

As of 31 December 2004 the net book value of the assets of AB Žemaitijos Pienas acquired by financial lease consisted only of equipment, because vehicles with net book value of LTL 1,641 thousand as of 31 December 2004 were transferred to AB Žemaitijos Pieno Investicija upon reorganisation, though liabilities of the financial lease, which are equal to LTL 974 thousand as of 31 December 2004, are accounted in the Group's financial statements. As of 31 December 2005 the amount of mentioned liabilities was LTL 588 thousand and net book value of the vehicles accounted for in the financial statements of AB Žemaitijos Pieno Investicija amounted to LTL 1,420 thousand.

Principal amounts of financial lease payables at year-end denominated in national and foreign currencies are as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
EUR	4,847	1,571	4,847	1,571
LTL	588	974	588	974
	5,435	2,545	5,435	2,545

As of 31 December 2005 the interest rate of the balance of financial lease liability, which is equal to LTL 1,200 thousand, varies depending on the 12-month EUR LIBOR plus 1.1%. The interest rate for the remaining portion of the financial lease liability, payables and in LTL outstanding as of 31 December 2005, is fixed, and ranges from 2.97% to 5.85%.

Minimal future lease payments under the above mentioned lease contracts of the Group and the Company as of 31 December 2005 are as follows:

Within one year	2,109
From one to five years	4,010
Total financial lease liabilities	6,119
Interest	(684)
Present value of financial lease liabilities	5,435
Financial lease liabilities are accounted as:	
- current	1,615
- non-current	3,820

16 Operating lease

The Group and the Company concluded several contracts of operating lease. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional borrowings or additional lease agreements. In 2005, the lease expenses of the Group and the Company amounted to LTL 6,761 thousand (LTL 4,005 thousand in 2004, accordingly).

Future lease payments according to the signed lease contracts are as follows:

Within one year	6,804
From one to five years	687
After five years	10
	7,501

The currency of the payment of operating lease is Litas.

17 Other current liabilities

	Group		Company	
	2005	2004	2005	2004
Social security payable	1,168	726	880	724
Accrued expenses	745	544	679	482
Advances received	449	725	449	705
Salaries payable	185	66	59	36
Taxes, other than income tax	110	756	58	514
Other current liabilities	747	492	680	414
	3,404	3,309	2,805	2,875

18 Operating expenses

	Group		Company	
	2005	**2004**	**2005**	**2004**
Wages, salaries and social security*	23,954	22,767	23,868	20,300
Services	19,802	21,044	19,999	20,679
Fuel and spare parts	5,770	5,176	5,770	5,094
Depreciation and amortisation	2,837	4,037	2,835	2,914
Materials	1,761	1,745	1,761	1,745
Taxes	1,635	2,954	1,624	2,572
Marketing	196	167	196	416
Impairment allowance for property, plant and equipment	-	157	-	-
Other	1,711	2,349	1,648	925
	57,666	60,396	57,701	54,645

* In 2005 the Company's and the Group's wages, salaries and social security expenses amounted to LTL 45,955 thousand and LTL 47,764 thousand respectively (LTL 40,309 thousand and LTL 44,152 thousand respectively in 2004). LTL 23,868 thousand and LTL 23,954 thousand respectively of this amount are accounted in operating expenses (LTL 20,300 thousand and LTL 22,767 thousand respectively in 2004), LTL 684 thousand are accounted for in other operating expenses (LTL 276 thousand in 2004) and the remaining are accounted in production cost.

19 Other operating income (expenses)

On 30 December 2005 the Supreme Administrative Court of Lithuania adjudged the compensation for losses incurred amounting to LTL 5,338 thousand for the Company's benefit from the Ministry of Agriculture of the Republic of Lithuania. This compensation for losses incurred is related to the prices of milk procurement by the Company in 2003, which were paid to the suppliers of the milk, according to the requirements of the legislation of the Republic of Lithuania. According to the decision of the court, the annual interest amounting to 5% of the amount of the compensation was also adjudged to the Company, calculated from 9 February 2004 until complete repayment of the mentioned amount. In the financial statements for the year 2005 the Company accounted the amount of the compensation in the caption of other operating income, also calculated interest amounting to LTL 462 thousand for the period from 9 February 2004 until 31 December 2005, and accounted this amount in the income from financial and investment activities in the income statement for the year 2005 (Note 20). The total amount of the compensation and interest calculated is also accounted in other receivables.

In 2005 and 2004 other operating income of the Company and the Group also consisted of income of the canteen (LTL 631 thousand and LTL 595 thousand respectively), sales of material valuables (LTL 3,717 thousand and LTL 755 thousand respectively), rental income (LTL 484 thousand and LTL 676 thousand respectively) and other. Other operating expenses of the Company and the Group mostly consist of wages, salaries and social security (LTL 684 thousand and LTL 276 thousand respectively), expenses of sales of material valuables (LTL 3,689 thousand and LTL 971 thousand respectively) and other.

20 Income (expenses) from financial and investment activities, net

	Group		Company	
	2005	2004	2005	2004
Interest income, related to grant (Note 19)	462	-	462	-
Foreign currency exchange gain	1,276	2,411	1,276	2,411
Interest income	245	225	245	212
Foreign currency exchange loss	(458)	(4,292)	(458)	(4,292)
Interest (expenses)	(2,131)	(2,130)	(2,130)	(2,130)
Other financial income, net	125	213	125	221
	(481)	(3,573)	(480)	(3,578)

21 Income tax

	Group		Company	
	2005	2004	2005	2004
Components of the income tax expense				
Current income tax for the reporting period	2,035	2,385	2,023	1,847
The correction of income tax of prior periods	(5)	27	(5)	-
Deferred income tax expenses (income)	(52)	270	(52)	277
Change of deferred income tax due to the change of income tax tariff	(71)	-	(41)	-
Change in realisable value of deferred income tax	30	36	-	-
Income tax expenses				
recorded in the income statement	1,937	2,062	1,925	1,468
recorded through retained earnings	-	656	-	656

Part of the Company's and the Group's current income tax amounting to LTL 656 thousand for the year ended 31 December 2004 was accounted for directly through retained earnings as it is related to gain on sold own shares accounted for directly in retained earnings.

	Group		Company	
	2005	2004	2005	2004
Deferred income tax asset				
Accrued taxable loss	139	109	-	-
Inventories	39	-	39	-
Accrued liabilities	113	69	113	69
Other	45	35	45	35
Deferred income tax asset before valuation allowance	336	213	197	104
Less: valuation allowance	(139)	(109)	-	-
Deferred income tax asset, net	197	104	197	104

Deferred income tax asset was accounted at 19% tariff in 2005 (15% tariff - in 2004).

21 Income tax (cont'd)

The changes of temporary differences before the tax effect in the Group were as follows:

	Balance as of 31 December 2004	Recognised in income statement	Balance as of 31 December 2005
Taxable losses	729	5	734
Inventories	-	206	206
Accruals	458	137	595
Other	235	-	235
Total temporary differences	1,422	348	1,770

The changes of temporary differences before the tax effect in the Company were as follows:

	Balance as of 31 December 2004	Recognised in income statement	Balance as of 31 December 2005
Inventories	-	206	206
Accruals	458	137	595
Other	235	-	235
Total temporary differences	693	343	1,036

The reported amount of income tax expenses attributable to the period can be reconciled to the theoretical amount of income tax expenses that would arise from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2005	2004	2005	2004
Profit before tax	**12,174**	**10,607**	**11,764**	**7,769**
Income tax expenses computed using the statutory tax rate (15%)	1,826	1,591	1,765	1,165
Non-deductible differences	157	(248)	206	303
Change of tariff	(71)	-	(41)	-
Change in evaluation of realisation	30	36	-	-
Adjustments of income tax for the prior periods	(5)	27	(5)	-
	1,937	1,406	1,925	1,468

22 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year.

	Group	
	2005	**2004**
Net profit attributable to the shareholders	10,281	8,190
Weighted average number of shares (in thousand)	4,838	4,763
Basic earnings per share (LTL)	2.13	1.72

Weighted average number of shares is calculated as follows:

	Group	
	2005	**2005**
Shares outstanding 1 January – 31 December (in thousand)	3,700	3,700
Newly issued shares from share surplus and retained earnings (thousand)	1,138	1,138
Weighted average number of own shares (in thousand)*	-	(75)
Weighted average number of shares (in thousand)	4,838	4,763

* Because the Company sold own shares at the end of April 2004, weighted net average number of shares in 2004 was calculated as follows: (1,138/3,700*173+173)*4/12=75.

Because in 2005 the Company increased the share capital from share surplus and retained earnings (Note 12), therefore the earnings per share for the year 2005 and 2004 were recalculated, evaluating this increase of share capital, according to the requirements of IAS 33 Earnings Per Share.

Diluted earnings per share equals to basic earnings per share as there were no potential shares issued as of 31 December 2005.

23 Dividends per share

	Group	
	2005	**2004**
Dividends paid	740	529
Number of shares (thousand)*	3,700	3,527
Dividends per share (LTL)	0.20	0.15

* The own shares of the Company are eliminated in the calculation of dividends per share for the year 2004 (173 thousand).

24 Financial assets and liabilities and risk management

Credit risk

The Group and the Company has no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. Customers risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties, except the guarantee disclosed in Note 25 to these financial statements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables (Note 10), net of impairment losses recognised at the balance sheet date.

Interest rate risk

The part of the Group's borrowings is with variable rates, related to LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2005 and 2004.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity and quick ratios as of 31 December 2005 were 1.81 and 0.96 (3.31 and 1.28 as of 31 December 2004). The Company's liquidity and quick ratios as of 31 December 2005 were 1.79 and 0.94 (3.05 and 1.18 as of 31 December 2005).

Foreign exchange risk

Major currency risks of the Group occur due to the fact that the Group borrows foreign currency denominated funds as well as is being involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged. Monetary assets and liabilities stated in various currencies as of 31 December 2005 were as follows:

	Group		**Company**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	41,232	49,195	41,137	49,952
EUR	14,092	36,330	14,092	36,330
USD	4	-	4	-
LVL	6	-	6	-
Total	55,334	85,525	55,239	86,282

24 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments

The Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current accounts payable and short-term borrowings approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

25 Commitments and contingencies

During the reorganisation AB Žemaitijos Pienas transferred the financial lease agreement with Nordea Finance to a newly established company AB Žemaitijos Pieno Investicija. Assets and related liabilities were transferred according to trilateral agreement between the Company, AB Žemaitijos Pieno Investicija and Nordea finance dated on 14 November 2004. On the same day the Company signed a guarantee agreement with Nordea Finance, and guaranteed for liabilities of AB Žemaitijos Pieno Investicija, according to the transferred agreement. The liability of AB Žemaitijos Pieno Investicija according to this agreement was LTL 3,444 thousand as of 31 December 2005 (LTL 4,287 thousand as of 31 December 2004).

As of 31 December 2005 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

26 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- AB Žemaitijos Pieno Investicija (same controlling shareholder);
- ABF Šilutės Rambynas (same ultimate controlling shareholder);
- UAB Baltijos Mineralinių Vandenų Kompanija (same ultimate controlling shareholder);
- AB Klaipėdos Pienas (same ultimate controlling shareholder);
- UAB Žemaitijos Prekyba (same ultimate controlling shareholder);
- UAB Gimtinės Pienas (same ultimate controlling shareholder).

The related party transactions and the balances at the end of the year were as follows:

	Group		Company	
i) Sales	**2005**	**2004**	**2005**	**2004**
UAB Baltijos Mineralinių Vandenų Kompanija	7,391	-	7,391	-
AB Klaipėdos Pienas	3,345	830	3,345	985
ABF Šilutės Rambynas	504	477	498	477
AB Žemaitijos Pieno Investicija	281	157	281	157
UAB Gimtinės Pienas	182	40	113	40
	11,703	1,504	11,628	1,659

26 Related party transactions (cont'd)

	Group		Company	
ii) Purchases	**2005**	**2004**	**2005**	**2004**
UAB Gimtinės Pienas	9,311	3,547	9,311	3,547
ABF Šilutės Rambynas	9,098	3,428	9,073	3,428
AB Klaipėdos pienas	6,350	2,940	6,350	2,940
UAB Baltijos Mineralinių Vandenų Kompanija	6,315	60	6,315	60
AB Žemaitijos Pieno Investicija	5,913	2,496	5,913	2,496
UAB Žemaitijos Prekyba	196	177	196	177
	37,183	12,648	37,158	12,648

	Group		Company	
iii) Year-end balances of accounts receivables	**2005**	**2004**	**2005**	**2004**
ABF Šilutės Rambynas	4,633	2,727	4,626	2,695
UAB Baltijos Mineralinių Vandenų Kompanija	2,616	-	2,617	-
UAB Gimtinės Pienas	215	80	67	43
AB Klaipėdos Pienas	183	-	183	-
UAB Žemaitijos Prekyba	140	-	140	-
	7,787	2,807	7,633	2,738

	Group		Company	
iv) Year-end balances of payables	**2005**	**2004**	**2005**	**2004**
AB Žemaitijos Pieno Investicija	4,746	1,270	4,745	1,270
AB Klaipėdos Pienas*	3,594	3,533	1,534	1,473
UAB Gimtinės Pienas	437	330	437	330
UAB Žemaitijos Prekyba	409	34	400	24
ABF Šilutės Rambynas	22	-	-	-
UAB Baltijos Mineralinių Vandenų Kompanija	-	8	-	8
	9,208	5,175	7,116	3,105

* AB Klaipėdos Pienas has granted non-current interest-free loans to ŽŪK Sodžiaus Pienas and ŽŪK Tarpučių Pienas. The loans should be repaid till 31 December 2006. As of 31 December 2004 the loan to ŽŪK Sodžiaus Pienas amounted to LTL 1,340 thousand, and the loan to ŽŪK Tarpučių Pienas amounted to LTL 700 thousand. These loans are accounted in the non-current payables caption in the Group's financial statements for the year ended 31 December 2004.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables, except as discussed in Note 25 above. For the year ended 31 December 2005, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 1,828 thousand in 2005 (LTL 1,436 thousand in 2004). In 2005 and 2004, the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

27 Subsequent events

In 2005 the Company applied for receiving the grant to purchase the production equipment with the total value of LTL 7,000 thousand. At the beginning of February 2006 the decision to provide the grant amounting to LTL 3,300 thousand for purchase of the production equipment was made. Until the date of the issuing of the financial statements the Company has not yet signed the grant agreement.

In January 2006 the Company granted a short term loan amounting to LTL 300 thousand to the management of the Company. The interest rate of the loan is 2.8%.

The Board of the Company have not approved the amount, which will be allocated to pay the dividends for 2005 yet.