

AB „ŽEMAITIJOS PIENAS“, company code 180240752, Sedos Str. 35, Telšiai
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
(all amounts are in LTL thousand unless otherwise stated)

AB „ŽEMAITIJOS PIENAS“

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31 DECEMBER 2007

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Balance sheets

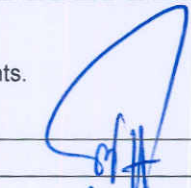
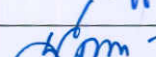
	Notes	Group	
		As of 31 December 2007	As of 31 December 2006
ASSETS			
Non-current assets			
Intangible assets		571	518
Property, plant and equipment		44.226	46.833
Investment property		4.857	5.307
Available – for – sale investments		14	14
Investments into subsidiaries		-	-
Non-current receivables		2.191	1.906
Deferred income tax asset		653	298
Total non-current assets		52.512	54.876
Current assets			
Inventories	4	46.289	39.077
Prepayments		7.867	859
Trade receivables		26.882	31.549
Receivables from subsidiaries		-	-
Receivables from other related parties		12.563	15.378
Other receivables		6.717	5.544
Cash and cash equivalents		13.053	14.534
Total current assets		113.371	106.941
Total assets		165.883	161.817

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
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Balance sheets (cont'd)

Notes	Group	
	As of 31 December 2007	As of 31 December 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity attributable to equity holders of the parent		
Share capital	48.375	48.375
Share premium account	-	-
Legal reserve	4.838	4.838
Other reserves	-	-
Retained earnings	42.942	19.400
	<u>96.155</u>	<u>72.613</u>
Minority interest	1.037	1.037
Total shareholders' equity	<u>97.192</u>	<u>73.650</u>
Non-current liabilities		
Grants received	2.999	2.073
Non-current loans	20.631	23.173
Long-term loans from related parties	-	-
Financial lease obligations	5.553	4.599
Other current liabilities	-	124
Total non-current liabilities	<u>29.183</u>	<u>29.969</u>
Current liabilities		
Current portion of non-current loans	2.899	22.913
Current portion of non-current financial lease obligations	2.316	1.727
Trade payables	21.703	22.536
Payables to subsidiaries	-	-
Payables to other related parties	2.960	6.856
Income tax payable	4.648	763
Other current liabilities	4.982	3.403
Total current liabilities	<u>39.508</u>	<u>58.198</u>
Total liabilities and shareholders' equity	<u>165.883</u>	<u>161.817</u>

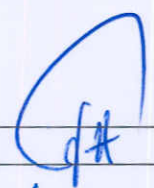
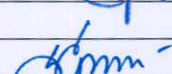
The accompanying notes are an integral part of these financial statements.

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Income statements

	Notes	Group	
		As of 31 December 2007	As of 31 December 2006
Sales	3	464.226	383.258
Cost of sales		(362.030)	(310.818)
Gross profit		102.196	72.440
Operating expenses		(75.690)	(61.897)
Other operating income, net		5.956	7.610
Profit from operations		32.462	18.153
Financial and investment activities		(1.895)	(2.007)
Profit before income tax		30.567	16.146
Income tax		(6.057)	(3.246)
Net profit		24.510	12.900

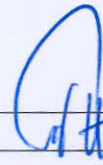

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General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Statements of changes in equity

Group	Attributable to shareholders of the Company							
	Share capital	Share surplus	Legal reserve	Other reserves	Retained earnings	Total	Minority interest	Total
Balance as of 31 December 2005	48.375	-	3.700	-	10.541	62.616	1.037	63.653
Dividends declared	-	-	-	-	(2.903)	(2.903)	-	(2.903)
Transfer to legal reserve	-	-	1.138	-	(1.138)	-	-	-
Net profit for the year	-	-	-	-	12.900	12.900	-	12.900
Balance as of 31 December 2006	48.375	-	4.838	-	19.400	72.613	1.037	73.650
Dividends declared	-	-	-	-	(968)	(968)	-	(968)
Net profit for the year	-	-	-	-	24.510	24.510	-	24.510
Balance as of 31 December 2007	48.375	-	4.838	-	42.942	96.155	1.037	97.192

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

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Cash flow statements

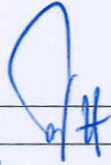
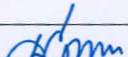
	Group	
	As of 31	As of 31
	<u>December 2007</u>	<u>December 2006</u>
Cash flows from (to) operating activities		
Net profit	24.510	12.900
Adjustments for non-cash items:		
Depreciation and amortization	16.831	14.674
Amortization of grants received	(2.509)	(1.868)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	(361)	(502)
Result from financial and investment activities	1.547	2.007
Allowance for receivables	(1.096)	(99)
Income tax expenses	6.057	3.246
Other non-cash (income) expenses	-	(201)
	<u>44.979</u>	<u>30.157</u>
Changes in working capital:		
Decrease in inventories	(7.212)	9.531
(Increase of) Receivables	7.482	(12.678)
Decrease in prepayments and other current assets	(7.008)	400
Increase in trade payables, payables to related parties and payables to subsidiaries	(833)	1.791
Income tax (paid)	(2.129)	(2.948)
Increase (decrease) in other current liabilities	(2.484)	100
Net cash flows from operating activities	<u>32.795</u>	<u>26.353</u>
Cash flows from (to) investing activities		
(Acquisition) of property, plant and equipment and intangible assets	(15.162)	(11.415)
Disposal of property, plant and equipment	731	3.449
Proceeds from sales of investments		
Repayment of loans granted	4.061	3.753
Loans (granted)	(4.423)	(3.116)
Interest received	198	333
Net cash flows (to) investing activities	<u>(14.595)</u>	<u>(6.996)</u>

(Cont'd on the next page)

Cash flow statements (cont'd)

	Group	
	As of 31	As of 31
	<u>December 2007</u>	<u>December 2006</u>
Cash flows from (to) financing activities		
Dividends (paid)	(968)	(2.903)
Cash, (transferred) during reorganization		
Loans received	6.231	-
(Repayment) of loans	(28.786)	(10.744)
Financial lease (payments)	829	(1.971)
Sponsorship Received	3.435	
Other revenue from financial activities	1.754	
Interest (paid)	(2.176)	(2.302)
Net cash flows (to) financial activities	<u>(19.681)</u>	<u>(17.920)</u>
Net increase (decrease) in cash and cash equivalents	(1.481)	1.437
Cash and cash equivalents at the beginning of the year	<u>14.534</u>	<u>13.097</u>
Cash and cash equivalents at the end of the year	<u>13.053</u>	<u>14.534</u>

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

General Manager	Algirdas Pažemeckas		28 February 2008
Chief Accountant	Dalia Gecienė		28 February 2008

Notes to the financial statements

1. General information

As of 31 December 2008 and 2006 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 10 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2007 and 31 December 2006, the Company also had no its own shares.

As of 31 December 2007 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	1	(109)	Repair of vehicles
UAB Žemaitijos pieno žaliava	Sedos Str. 35, Telšiai, Lithuania	100,00%	100%	1.000	(10)	727	Milk collection services
ŽŪK Tarpučių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	13	458	Milk collection services
ŽŪK Sodžiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	141	1,305	Milk collection services

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries. AB Telšių Autoservisas is considered a 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 the year ended 31 December 2006 and in the year ended 31 December 2007.

As of 31 December 2007, the number of employees of the Group was 1875 (as of 31 December 2006 – 1941).

2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the nine months ended 30 September 2007 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.

Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). 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.

2.2. Principles of consolidation

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% 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.

Intercompany balances and transactions, including unrealized 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.

2.3. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized 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 amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

2.4. 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 estimated useful lives of the assets:

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

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

An item of property, plant and equipment is derecognized 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 derecognized.

2.5. Investment property

Investment property of the Group 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 life of 20-40 years.

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

2.6. Inventories

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. 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. Unrealizable inventory is fully written-off.

2.7. 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 know 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 and demand deposits.

2.8. Financial assets and financial liabilities

The Group and the Company recognize financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

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 recognized on the trade date. When financial assets are recognized 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.

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 amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans received

Loan costs are expensed as incurred.

Loans are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the loans.

2.9. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2.10. Grants

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 recognized 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 unutilized grants is shown in caption "Grants received" on the balance sheet.

2.11. Income tax

Income tax is calculated based on the Lithuanian tax legislation

On the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%. On 1 January 2007 m. companies have to pay an additional 3% tax calculated based on the income tax principles.

2.12. Revenue recognition

Revenue is recognized 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 recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risk and rewards has been completed.

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

2.13. Expense recognition

Expenses are recognized 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 is estimated by discounting the amount of payment using the market interest rate.

2.14. 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 transaction 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.

2.15. Guarantees

Financial guarantees provided by the Group are initially recognized in the financial statements at fair value, under other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognized in the income statement in financial income on a straight-line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties

2.16. Offsetting

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.

3 Segment information

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

	Group	
	As of 31 December 2007	As of 31 December 2006
Sales		
Lithuania	217.876	206.253
Other Baltic States and CIS countries	89.928	89.108
Other European countries	115.610	86.034
USA	0	797
Other	40.812	1.066
	464.226	383.258

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Since April 2006, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to ABF Šilutės Rambynas and purchases the production of this company for resale.

Since June 2007, due to the changed nature of the transactions AB Žemaitijos Pienas resells milk to AB Klaipėdos Pienas and purchases the production of this company for resale.

4 Inventories

	Group	
	As of 31 December 2007	As of 31 December 2006
Raw materials	8.795	12.287
Finished goods and work in process	33.840	25.925
Goods for resale	3.654	865
	<u>46.289</u>	<u>39.077</u>

5

Loans' repayment terms:

	31 December 2007
2008 m.	2.899
2009 m.	8.280
2010 m.	1.670
2011 m.	323
2012 m.	10.358
Total Loans on 31 December 2007	<u><u>23.530</u></u>

31 December 2007, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	31 December 2007
Loan currency:	
Euro	18.025
Litas	5.505
	<u><u>23.530</u></u>

6 Subsequent events

Subsequent events was not after was make consolidated financial statements.

Žemaitijos pienas AB
Approval of responsible persons

28 February 2008
Telšiai

Regarding drafting of financial statement for the year ended 31 December 2007

We hereby confirm that the Interim Financial Statements prepared according to applicable standards of accounting does reflect the real situation and represent the true and correct corporate assets, liabilities, financial standing, profit or loss.

We also confirm that the Interim Report does represent the true and correct review of business development and activities.

General Manager



Algirdas Pažemeckas

Chief Accountant

Dalia Gecienė