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Auditas Apskaita Konsultacijos

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Įmonės registravimo Nr. UĮ 94-154

AB Pieno žvaigždės

Consolidated annual accounts for the year 2003

Pieno Zvaigzdės AA 03 E

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Parent company details

AB Pieno Žvaigždės

Telephone	+ 370 5 402 591
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Registration no:	BĮ 01-155
Registered office:	Laisvės pr. 125, Vilnius, Lithuania

Board of Directors

Julius Kvaraciejus (Chairman)
Kjell Lennart Carlson
Valdemaras Klovas
Virginijus Jankauskas
Regina Kvaraciejienė
Hans Mideus
Kristina Mileiko
Valentinas Paura
Lars Thorsson
Aleksandras Smaginas

Management

Valdas Tekorius (Managing director)

Auditors

KPMG Lietuva

Bankers

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

Financial highlights

LTL'000	2003	2002	2001
Key figures			
Turnover	**367,625**	**331,650**	**333,745**
Gross profit	89,342	53,199	65,140
Operating profit	22,033	-9,318	12,967
Profit before taxation	18,961	-6,733	13,434
Profit for the year	**17,066**	**-6,733**	**13,434**
Minority interest	-1,033	1,839	-127
Net profit for the year	**16,033**	**-4,894**	**13,307**
Non-current assets	152,852	132,311	106,737
Current assets	81,854	79,969	82,818
Total assets	**234,706**	**212,280**	**189,555**
Share capital	54,030	49,630	49,630
Capital and reserves	**101,663**	**85,716**	**90,714**
Minority interest	**10,935**	**14,009**	**15,943**
Deferred grants	4,966	-	-
Non-current liabilities	49,899	52,531	21,997
Current liabilities	67,243	60,024	60,901
Net cash flow from operating activities	33,448	17,107	4,898
Net cash flow from investing activities	-41,095	-38,930	-45,410
Net cash flow from financing activities	10,646	22,156	41,480
Total cash flow	**2,999**	**333**	**968**
Average number of employees	**2,910**	**3,119**	**3,121**
Financial ratios			
Net profit ratio	4.4%	-1.5%	4.0%
Return on investment	9.4%	-4.4%	6.8%
Gross margin	24.3%	16.0%	19.5%
Current ratio	121.7%	133.2%	136.0%
Equity ratio	43.3%	40.4%	47.9%
Return on equity	**6.2%**	**-3.2%**	**10.3%**

Financial highlights

Calculation of financial ratios

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

Management's statement on the accounts

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

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

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

Vilnius, 26 March 2004

Management:

Valdas Tekorius
Managing Director

Board of Directors:

Julius Kvaraciejus
Chairman

Kjell Lennart Carlson

Valdemaras Klovas

Virginijus Jankauskas

Regina Kvaraciejienė

Hans Mideus

Kristina Mileiko

Valentinas Paura

Lars Thorsson

Aleksandras Smaginas

Report of the auditor to the shareholders of AB Pieno Žvaigždės

Scope

We have audited the accompanying consolidated balance sheet of AB Pieno žvaigždės as at 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. Comparative figures as of 31 December 2002 were audited by other auditors, who on 18 April 2003 expressed a qualified opinion on the consolidated financial statements of AB Pieno žvaigždės as of 31 December 2002.

Respective responsibilities of directors and auditors

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

Basis of the opinion

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

Qualifications

In accordance with the resolutions of Lithuanian Government, the fixed assets of the Company have been indexed up to 31 December 1995 which has increased the book value of the assets. The fixed assets of the Company are recorded as to Lithuanian Accounting principles, but the value indicated is neither accounted as to historical cost nor fair value as required by International Financial Reporting Standards. Therefore, we qualify for the value of the fixed assets as at 31 December 2003 in accordance with International Financial Reporting Standards.

Report of the auditor to the shareholders of AB Pieno Žvaigždės

Fixed assets held for sales include assets with a net book value of 6,877 tLitas, which the company has been unable to sell. In our opinion, these assets should be measured at the lower of cost and net realizable value. The company did not reduce the value of these assets to their net realizable value and no valid estimates of the net realizable value were made available to us. We were not able to apply other audit procedures to satisfy ourselves with the carrying value of these assets, thus, we have to qualify for the amount.

Opinion

In our opinion, except for the matters discussed in a preceeding paragraphs, the consolidated financial statements give a true and fair view of the financial position of AB Pieno Žvaigždės as at 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vilnius, 26 March 2004
KPMG Lietuva

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
ACCA and Lithuanian
Certified Auditor

390.844.RK/EKr

Profit and loss account for the year ended 31 December

	Note	2003	2002
		Litas'000	Litas'000
Turnover	2	367,625	331,650
Production costs		-278,283	-278,451
Gross profit		89,342	53,199
Operating costs	4	-69,666	-64,511
Other operating income and costs, net	5	2,357	1,994
Operating profit		22,033	-9,318
Financial income	6	4,034	7,779
Financial expenses	7	-7,106	-5,194
Profit before tax		18,961	-6,733
Profit tax	8	-1,895	0
Profit after tax		17,066	-6,733
Minority interest		-1,033	1,839
Net profit for the year		16,033	-4,894
Earnings per share	9	0.30	-0.10

Balance sheet at 31 December

	Note	2003	2002
		Litas'000	Litas'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	150,185	131,068
Intangible assets	11	1,967	432
Investments		514	589
Non-current receivables		186	222
Total non-current assets		152,852	132,311
Current assets			
Inventories	12	43,787	43,563
Trade receivables	13	26,684	31,464
Other receivables	14	5,205	1,688
Investments		22	97
Cash and cash equivalents	15	6,156	3,157
Total current assets		81,854	79,969
TOTAL ASSETS		234,706	212,280

Balance sheet at 31 December

	Note	2003	2002
		Litas'000	Litas'000
EQUITY AND LIABILITIES			
Capital and reserves	16		
Share capital		54,030	49,630
Share premium		15,436	15,436
Own shares		-108	-85
Legal reserve		4,382	4,382
Other reserves		10,291	15,272
Retained earnings		17,632	1,081
Total capital and reserves		101,663	85,716
Minority interest		10,935	14,009
Non-current liabilities			
Deferred grants	17	4,966	-
Interest bearing loans and borrowings	18	49,899	52,531
Total non-current liabilities and charges		54,865	52,531
Current liabilities			
Interest bearing loans and borrowings	18	29,000	15,994
Trade creditors		27,679	34,250
Other creditors	19	10,564	9,780
Total current liabilities		67,243	60,024
Total liabilities		122,108	112,555
TOTAL EQUITY AND LIABILITIES		234,706	212,280
Contingencies	20		
Staff costs	21		
Related party transactions	22		

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

LTL'000	Note	Share capital	Share premium	Treasury shares	Legal reserve	Other reserve	Retained earnings	Total
Capital and reserves at 1 January 2002		49,630	15,436	-	3,340	8,664	13,644	90,714
Transfer to reserves					1,042	6,627	-7,669	
Acquisition of own shares		0	0	-85	0	-19	0	-104
Net loss for 2002		0	0	0	0	0	-4,894	-4,894
Capital and reserves at 1 January 2003	16	49,630	15,436	-85	4,382	15,272	1,081	85,716
Adjustment to share capital		4,400					-4,400	
Transfer						-4,981	4,981	
Acquisition of own shares		0	0	-23	0	0	0	-23
Other movements							-63	-63
Net income for 2003		0	0	0	0	0	16,033	16,033
Capital and reserves at 31 December 2003	16	54,030	15,436	-108	4,382	10,291	17,632	101,663

Cash flow statement

Litas'000	2003	2002
Net result	16,033	-4,894
Adjustments for:		
Depreciation and amortisation	22,413	17,058
Amortisation of negative goodwill	-1,280	-874
Amortisation of grants	-838	-
Minority interest	1,033	-1,839
Non-current assets sold, written off, etc.	512	-461
Change in impairment provision for fixed assets	636	-3,776
Change in provision for obsolete inventories	-2,051	3,458
Change in provision and written-off doubtful receivables	7	2,818
Change in vacation reserve	83	-1,773
Positive currency exchange gain	-295	-5,307
Interest expense, net	3,651	2,668
Accruals for current taxation	1,895	-
Net cash inflow from ordinary activities before any change in working capital	41,799	7,078
Change in trade and other receivables	1,292	307
Change in inventories	1,827	1,999
Change in trade creditors and other creditors	-7,819	10,399
Net cash inflow from ordinary activities	37,099	19,783
Net interest received/paid	-3,651	-2,676
Profit tax paid/received	0	0
Net cash inflow from operating activities	33,448	17,107
Sale and acquisition of investments	150	-147
Step acquisition of shares in subsidiary	-4,564	-71
Capitalisation of intangible fixed assets	-509	-1,809
Acquisition of property, plant and equipment	-36,172	-36,903
Net cash outflow from investing activities	-41,095	-38,930
Shareholders:		
Acquisition of treasury shares	-23	-104
Dividend paid	0	0
Proceeds/payments of long-term and short-term borrowings	10,669	22,260
Net cash inflow/(outflow) from financing, net	10,646	22,156
Net cash inflow/outflow from operating activities, investing activities and financing	2,999	333
Cash and cash equivalents at 1 January	3,157	2,824
Cash and cash equivalents at 31 December	6,156	3,157

Notes to the accounts

1 Summary of significant accounting policies and practises

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

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

The consolidated financial statements of the Company for the year ended 31 December 2003 comprise the Company and its subsidiaries (together referred to as the "Group"). During 2003 the Company acquired additional 14% of AB Panevežio Pienas shares and the shareholding at 31 December 2003 totals 64.2%.

The Company is organised into headquarters in Vilnius, branches in Mažeikiai, Pasvalys and Kaunas. Mažeikiai manages 2 divisions which are located in Akmene and Skuodas.

The Company's shares were traded on the Official List of the National Stock Exchange of Lithuania (NSEL).

Statement of compliance

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

Basis of preparation

The consolidated financial statements are presented in Litas, rounded to the nearest thousand. They are prepared on the historical cost basis.

The accounting policies of the Company as set out below are consistent with those of the preceding year.

Basis of consolidation

(i) Subsidiaries

The Group accounts comprise AB Pieno Žvaigždės, the parent company, and a subsidiary AB Panevėžio Pienas where AB Pieno Žvaigždės controls more than 50% of voting rights.

Notes to the annual accounts

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

(ii) Transactions eliminated on consolidation

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

Foreign currency

(i) Foreign currency transactions

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

Balance sheet

Property, plant and equipment

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

The accounting policy of property, plant and equipment acquired prior to 1 January 1996 departed from International Financial Reporting Standards, requiring the use of either historical cost as adjusted for hyperinflation by a general price index, or a valuation supported by an independent value appraisal by a recognized firm.

Notes to the annual accounts

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

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

- Buildings and constructions 20 to 40 years
- Plant and machinery 10 - 12 years
- Vehicles and other assets 4 - 7 years

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

Intangible fixed assets

Goodwill and negative goodwill

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

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

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

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

Notes to the annual accounts

Other intangible assets

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

Investments

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

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Impairment

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

Notes to the annual accounts

an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

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

Repurchase of own shares

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

Dividends

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

Grants

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

Interest-bearing borrowings

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

Borrowing costs

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

Notes to the annual accounts

Profit and loss account

Revenue

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

Production costs

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

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

Tax on result for the period

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

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

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

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

Notes to the annual accounts

Segment reporting

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

Cash flow statement

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

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

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

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

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

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

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

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

Notes to the annual accounts

2 Segment reporting

The Company's business segments (basis for primary reporting format) include production and sales of cheeses, milk products and other sales.

Segment information is presented in respect of the Company's geographical segments (secondary reporting format).

The majority of the Company's sales are in the domestic market, Eastern Europe. All the Company's assets are located in the country, where it is domiciled.

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

Primary segments

	Cheeses		Other milk products		Not allocated		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales net value	77,257	83,490	290,368	248,160	0	0	367,625	331,650
Segment result	13,725	11,865	75,617	41,334	0	0	89,342	53,199
Operating expenses	-7,312	-7,195	-52,176	-48,506	-10,178	-8,810	-69,666	-64,511
Other income, net	83	0	1,581	1,726	693	268	2,357	1,994
Financial result	-1,875	-494	-2,675	-2,561	1,478	5,640	-3,072	2,585
Result before tax	4,621	4,176	22,347	-8,007	-8,007	-2,902	18,961	-6,733
Profit tax	-434	0	-1,461	0	0	0	-1,895	0
Profit after tax	4,187	4,176	20,886	-8,007	-8,007	-2,902	17,066	-6,733
Minority interest	0	0	-1,033	1,839	0	0	-1,033	1,839
Net result	4,187	4,176	19,863	-6,168	-8,007	-2,902	16,033	-4,894

Notes to the annual accounts

Secondary segments

Litas'000	Sales		Total assets		Capital expenditure	
	2003	2002	2003	2002	2003	2002
Lithuania	250,369	221,718	234,706	212,280	150,185	131,068
Russia	67,484	74,536	0	0	0	0
Germany	6,086	3,770	0	0	0	0
Latvia	5,532	4,300	0	0	0	0
Japan	4,498	0	0	0	0	0
Other countries	33,656	27,326	0	0	0	0
	367,625	331,650	234,706	212,280	150,185	131,068

3 **Acquisition and disposal of subsidiaries**

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

Litas'000	2003	2002
	Acquisition	Acquisition
Net identifiable assets and liabilities	29,781	29,019
Ownership	14%	0.3%
Proportion of identifiable net assets acquired/disposed	4,169	87
Goodwill (negative goodwill) on acquisition	448	-15
Consideration paid/ received	4,617	72
Cash acquired / disposed	-53	-1
Net cash outflow/ inflow	4,564	71

On 7 July 2003 the Company acquired additional 14% ownership in AB Panevėžio Pienas.

Notes to the annual accounts

		2003	2002
		Litas '000	Litas '000
4	**Operating costs**		
	Salaries and social insurance	26,246	25,292
	Marketing and advertising	11,594	9,850
	Depreciation and amortisation	4,437	4,936
	Fuel	4,122	4,214
	Change in provision for bad and doubtful debtors and write offs	580	2,818
	Taxes, except for profit tax	2,668	2,518
	Materials and spare parts	2,769	2,192
	Transport	3,451	1,633
	Packing	1,953	1,446
	Telecommunication	1,315	1,229
	Household expenses	877	1,031
	Office supplies	97	960
	Repairs	1,822	956
	Insurance	406	520
	Change in impairment provision for unfinished construction	636	-3,776
	Others	6,693	8,692
		69,666	64,511

		2003	2002
5	**Other operating income**		
	Amortisation of negative goodwill	1,280	874
	Rent and other services income	1,381	419
	VAT allowance	360	258
	Gain/loss on sales of non-current assets	-512	524
	Fines and penalties, net	-44	-119
	Others	-108	38
	Other operating income and costs, net	2,357	1,994

		2003	2002
6	**Financial income**		
	Foreign exchange transaction gain,	3,990	7,678
	Interest income on bank deposits	44	92
	Others	-	9
		4,034	7,779

Notes to the annual accounts

		2003	2002
		Litas '000	Litas '000
7	**Financial expense**		
	Interest expense on bank borrowings and leasing	-3,695	-2,760
	Foreign exchange transaction loss	-3,411	-2,371
	Others	-	-63
		-7,106	-5,194
8	**Profit tax**		
	Current tax	1,895	0
	Tax correction for prior periods	0	0
	Change in deferred taxation	0	0
	Tax for the period	1,895	0

The reconciliation of the effective tax rate is as follows:

	2003	2002
Result before taxes	18,961	-6,733
Change in temporary differences	-3,218	6,480
Total permanent differences	-3,110	253
Profit taxable at a rate of 15%	12,633	0
Profit tax expense	1,895	0
Deferred tax assets		
Impairment of fixed assets	402	306
Provision for obsolete and slow-moving inventories	471	778
Provision for bad and doubtful debtors	598	69
Vacation accrual	519	507
Other accruals	0	46
Loss carry forward	0	432
Total deferred tax assets	1,990	2,138
Valuation allowance	-1,670	-1,703
Deferred tax asset, net	320	435
Deferred tax liabilities		
Difference in financial and tax depreciation	-320	-435
Deferred tax liability	-320	-435
Net deferred tax asset/(liability)	0	0

Notes to the annual accounts

9 **Earnings per share**

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

	2003	2002
Net profit for the year	16,033	-4,894
Weighted average number of shares in issue (thousand)	53,934	49,612
Basic earnings per share	0.30	-0.10

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

10 **Property, plant and equipment**

Litas'000	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost at 1 January	52,438	129,411	27,202	24,550	233,601
Additions	632	24,888	1,836	15,587	42,943
Disposals and write offs	-279	-3,448	-1,043	-606	-5,376
Write-off	0	0	0	0	0
Reclassifications	12,831	13,979	153	-26,963	0
Cost at 31 December	65,622	164,830	28,148	12,568	271,168
Depreciation at 1 January	18,801	63,764	17,927	0	100,492
Depreciation for the year	1,636	17,227	2,848	0	21,711
Disposals and write offs	-34	-2,981	-882	0	-3,897
Reclassifications	0	12	-12	0	0
Depreciation at 31 December	20,403	78,022	19,881	0	118,306
Impairment at 1 January	0	0	0	2,041	2,041
Change for the year	555	0	0	81	636
Reclassifications	0	0	0	0	0
Impairment at 31 December	555	0	0	2,122	2,677
Net book value at 31 December	44,664	86,808	8,267	10,446	150,185
Net book value at 1 January	33,637	64,640	9,275	24,550	131,068
Depreciated over	25 - 40 years	10 - 15 years	4 - 7 years		

Notes to the annual accounts

Depreciation has been allocated as follows:

	2003	2002
	Litas'000	Litas'000
Production cost	17,976	12,132
Operating cost	3,735	4,173
Total	21,711	16,305

Security

At 31 December 2003, property, plant and equipment with a carrying amount of 40,203 tLitas (2002: 77,480 tLitas) are pledged to secure bank loans (refer to Note 18).

Revaluations

Four revaluations of property, plant and equipment were performed during the period between 1 July 1991 and 31 December 1995. The revaluations of property, plant and equipment were performed by indexing the cost and accumulated depreciation of the property, plant and equipment using the indexes set by the Lithuanian Government.

The range of revaluations and revaluation indexes was as follows:

Revaluation	The range of indexes
Effective from 1 July 1991	2.2 times
Effective from 1 January 1992	2 - 5 times
Effective from 1 June 1994	1.4 - 14 times
Effective from 31 December 1995	1.6 - 1.7 times

The effect of revaluations to the book value as at 31 December 2003 is not available.

Notes to the annual accounts

11 Intangible fixed assets

	Goodwill	Negative goodwill	Software, etc.	Total
Cost at 1 January	-	-8,310	3,343	-4,967
Additions during the period	448	-	509	957
Written off	-	7,917	-84	7,833
Cost at 31 December	448	-393	3,768	3,823
Amortisation at 1 January	-	-6,592	1,193	-5,399
Amortisation for the period	45	-1,325	702	-578
Depreciation of written-off assets	-	7,917	-84	7,833
Amortisation at 31 December	45	0	1,811	1,856
Net book value at 31 December	403	-393	1,957	1,967
Net book value at 1 January	0	-1,718	2,150	432
Amortised over	5 years	5 years	1-3 years	

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

12 Inventories

	2003 Litas'000	2002 Litas'000
Raw materials	13,876	12,774
Work in progress	15	101
Finished goods	26,070	28,921
Fixed assets for resale	6,877	6,885
Others	87	71
	46,925	48,752
Provision for obsolete and slow moving inventories	-3,138	-5,189
Net book value at 31 December	43,787	43,563

At 31 December 2003, inventories up to the carrying amount of 13,000 tLitas (2002: 20,501 tLitas) are pledged to secure bank loans (refer to Note 18).

Notes to the annual accounts

		2003	2002
		Litas'000	Litas'000
13	**Trade receivables**		
	Gross trade receivables	28,543	32,232
	Other receivable amounts	2,127	3,211
		30,670	35,443
	Provision for bad and doubtful debtors	-3,986	-3,979
	Net book value at 31 December	26,684	31,464
14	**Other receivables**		
	Prepayments	4,884	1,317
	Deferred charges	321	371
	Net book value at 31 December	5,205	1,688
15	**Cash and cash equivalents**		
	Cash at bank	5,995	2,900
	Cash in hand	161	257
	Cash and cash equivalents at 31 December	6,156	3,157

At 31 December 2003, cash in bank accounts of 4,842tLitas are pledged to secure bank loans (refer to Note 18). In addition, cash inflows into bank accounts in Hansabankas are pledged to secure bank loans (refer to Note 18).

At 31 December 2003, cash in bank accounts of 80 tLitas (2002: 0 tLitas) were pledged for issue of bank guarantees to National payment agency.

Notes to the annual accounts

16 Capital and reserves

Share capital

The share capital comprises 54,030 thousand ordinary shares with a nominal value of Litas 1 each and the total share capital of 54,030 tLitas.

Reacquired own shares

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

	Number of shares, thousand	Own shares, 000'Litas
At 1 January	85	85
Acquired own shares in the market	23	23
At 31 December	108	108

Legal reserve

The legal reserve in the amount of 4,382 tLitas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the retained earnings available for distribution are required until the legal reserve and the share premium reach 10% of the authorised capital. The legal reserve can only be used to cover future losses.

Other reserve

The other reserves in the amount of 10,291 tLitas relate to the investment tax relief used by the Company. When calculating profit tax, the company applied a relief regarding the net investment into tangible non-current assets. The reserve can be used to cover future losses.

Proposed dividend

The Company has proposed a dividend of 5,403 tLitas for 2003. By the time of the issuance of the financial statements, the dividend has not yet been approved by the shareholders' meeting.

Notes to the annual accounts

17 Deferred grants

	Deferred grant
Grants at 1 January	0
Additions during the period	5,804
Grants at 31 December	5,804
Amortisation at 1 January	0
Amortisation for the period	838
Amortisation at 31 December	838
Net book value at 31 December	4,966
Net book value at 1 January	0

Deferred grants comprise a grant as to SAPARD project for the modernisation of the cheese factory facilities. As to the agreement with National payment agency at the Ministry of Agriculture the Company should invest 24,222 tLitas, out of which 45% should be received as a grant. The remaining value of the grant should be received during 2004.

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

18 Interest bearing loans and borrowings

	2003	2002
	Litas'000	Litas'000
Non-current liabilities		
Interest bearing loans	42,779	47,141
Financial leasing	7,120	5,390
Net book value at 31 December	49,899	52,531
Current liabilities		
Interest bearing loans	27,225	14,836
Financial leasing	1,775	1,158
Net book value at 31 December	29,000	15,994

Notes to the annual accounts

Terms and repayment schedule

	Total	Up to 1 year	1 - 2 years	2 - 5 years
Credit facility of 17,708 tLTL - variable at VILIBOR + 1.5%	17,708	0	17,708	0
Credit facility of 1,802 tUSD - variable at USD LIBOR + 1.3%	4,813	4,813	0	0
Credit facility of 2,000 tLTL - variable at VILIBOR + 1.5%	1,754	0	1,000	754
Credit facility of 10,000 tLTL - variable at VILIBOR + 1.6%	1,100	1,100	0	0
Credit facility of 2,115 tEUR - variable at EURIBOR + 1.5%	7,304	3,502	3,802	0
Credit facility of 1,169 tEUR - variable at EURIBOR + 1.5%	3,658	757	2,901	0
Credit facility of 750 tUSD - variable at USD LIBOR + 1.3%	981	981	0	0
Credit facility of 9,872 tLTL - variable at VILIBOR + 1.3%	7,702	2,202	4,155	1,345
Credit facility of 2,000 tLTL - variable at VILIBOR + 1.5%	2,000	2,000	0	0
Credit facility of 3,000 tLTL - fixed at 4,66%	3,000	3,000	0	0
Credit facility of 1,100 tUSD - variable at USD LIBOR + 1.3%	2,738	600	1,200	938
Credit facility of 4,000 tEUR - variable at VILIBOR + 1.5%	11,738	2,762	5,524	3,452
Credit facility of 3,000 tLTL - fixed at 5,4%	2,991	2,991	0	0
Credit facility of 1,000 tEUR - fixed at 4 %	2,312	2,312	0	0
Credit facility of 500 tUSD - variable at LIBOR + 5.5%	205	205	0	0
Total	70,004	27,225	36,290	6,489

Notes to the annual accounts

Financial lease liabilities

Financial lease liabilities are payable as follows:

	Payments 2003	Interest 2003	Principal 2003	Payments 2002	Interest 2002	Principal 2002
Less than one year	2,110	335	1,775	1,480	322	1,158
Between one and five years	7,013	879	6,134	4,534	846	3,688
More than five years	1,071	85	986	1,884	182	1,702
Total	10,194	1,299	8,895	7,898	1,350	6,548

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

	2003	2002
	Litas'000	Litas'000
19 **Other creditors**		
Vacation reserve	3,460	3,377
Taxes and social security payable	2,554	2,566
Profit tax payable	1,895	-
Salaries payable	1,872	1,936
Prepayments	454	1,065
Accrued expenses	226	321
Other payables	103	515
Net book value at 31 December	10,564	9,780

Notes to the annual accounts

20 Contingencies

At 31 December 2003 the following items are pledged to secure bank loans:

- property, plant and equipment with a carrying amount of 40,203 tLitas (2002: 77,480 tLitas),
- inventories up to the carrying amount of 13,000 tLitas (2002: 20,501 tLitas),
- cash in bank accounts of 4,842 tLitas and cash inflows into bank accounts in Hansabankas,
- right for land (Justiniskių g. 134, Vilnius) rent,
- 1,886 thousand shares in AB Panevėžio Pienas and 3,877 thousand shares of AB Pieno Žvaigždės.

At 31 December 2003, cash in bank accounts of 80 tLitas (2002: 0 tLitas) are pledged for issued of bank guarantees in favour of National payment agency.

Notes without reference

		2003	2002
		Litas'000	Litas'000
21	**Staff costs**		
	Production costs	34,376	34,868
	Operating expenses	26,246	25,292
		60,622	60,160

Staff costs include wages and salaries and emoluments for the management of 1,998 tLitas (2002: 2,290 tLitas).

The Group had 2,910 employees at the end of 2003 (2002: 3,119 employees).

22 Related party transactions

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

The remuneration of the management is presented in the note for staff costs.

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