AB Pieno Žvaigždės

Annual accounts for 2006

Contents

Company details

AB Pieno Žvaigždės

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Company code: 124665536

Registered: Laisvės pr. 125, Vilnius, Lithuania

Board of Directors

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

Management

Aleksandr Smagin, General director

Auditor

KPMG Baltics UAB

Banks

AB SEB Vilniaus Bankas
AB Bankas Hansabankas
AB Sampo Bankas
AB DnB Nord

Management's statement on the annual financial statements

The Management has today discussed and authorized for issue the annual financial statements and the annual report and signed them on behalf of the Company.

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

We recommend the annual accounts to be approved at the General Shareholders meeting.

Vilnius, 31 March 2007

Management:

Aleksandr Smagin
General director

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Independent auditor's report to the shareholders of AB "Pieno žvaigždės"

We have audited the accompanying financial statements of AB Pieno Žvaigždės, which comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, set out on pages 5-34.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year 2006 set out on pages 35-60 of the Annual Accounts and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

Klaipėda, 31 March 2007
KPMG Baltics UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
Certified Auditor

Income statement

For the year ended 31 December 2006

Thousand Litas	Note	2006	2005
Revenue	1	545 033	446 331
Cost of sales		(441 667)	(354 816)
Gross profit		103 366	91 515
Other operating income, net	2	1 220	889
Sales and administrative expenses	3	(76 203)	(69 311)
Operating profit before finance costs		28 383	23 093
Finance income	4	273	261
Finance expenses	5	(5 353)	(4 953)
Finance income/expenses, net		(5 080)	(4 692)
Profit before tax		23 303	18 401
Corporate income tax	6	(4 811)	(3 107)
Profit for the year		18 492	15 294
Earnings per share (Litas)	7	0.34	0.28
Diluted earnings per share (Litas)	7	0.34	0.28

The notes, set out on pages 9 to 34, are an integral part of these financial statements.

Balance sheet

As at 31 December 2006

Thousand Litas	Note	2006	2005
Assets			
Property, plant and equipment	8	187 474	176 371
Intangible assets	9	1 811	2 155
Investments available for sale	10	275	350
Long-term receivables		350	663
Deferred tax	17	1 429	1 670
Total non-current assets		191 339	181 209
Inventories	11	51 206	39 053
Receivables	12	76 062	55 482
Cash and cash equivalents	13	1 407	4 844
Total current assets		128 675	99 379
Total assets		320 014	280 588
Equity			
Share capital		54 205	54 205
Share premium		27 246	27 246
Own shares		(1 108)	(1 108)
Reserves		12 641	20 805
Retained earnings		30 376	13 119
Total equity	14	123 360	114 267
Liabilities			
Government grants	15	3 073	5 116
Interest-bearing loans and borrowings	16	119 817	96 877
Total non-current liabilities		122 890	101 993
Interest-bearing loans and borrowings	16	23 953	24 273
Income tax payable	6	94	816
Trade and other amounts payable	18	49 717	39 239
Total current liabilities		73 764	64 328
Total liabilities		196 654	166 321
Total equity and liabilities		320 014	280 588

The notes, set out on pages 9 to 34, are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2006

Thousand Litas	Note	2006	2005
Cash flows from operating activities			
Profit before tax		23 303	18 401
Adjustments:			
Depreciation and amortisation	8, 9	34 997	29 477
Amortisation of government grants	15	(2 093)	(2 074)
Result of disposal of property, plant and equipment		(368)	(50)
Change in impairment loss of non-current assets	8	(1 375)	-
Impairment loss of receivables	3	650	79
Change in vacation reserve		26	(407)
Unrealised gain/loss on foreign currency exchange		-	898
Interest income/expenses, net	4,5	5 171	3 836
Cash flows from ordinary activities before changes in the working capital		60 311	50 160
Change in inventories		(12 153)	777
Change in receivables		(20 917)	(11 837)
Change in trade and other payable amounts		13 200	(232)
Cash flows from operating activities		40 441	38 868
Interest paid		(4 970)	(3 888)
Income tax paid		(5 259)	(3 246)
Net cash flow from operating activities		30 212	31 734
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	(41 372)	(16 027)
Acquisition of intangible assets	9	(525)	(617)
Proceeds on sale of property, plant and equipment		867	1 235
Proceeds on disposal of investments held for sale		75	22
Interest received		53	52
Net cash flow used in investing activities		(40 902)	(15 335)
Cash flows from financing activities			
Loans received		46 608	14 521
Repayment of borrowings		(19 262)	(8 501)
Issue (redemption) of shares		-	(1 000)
Dividends paid		(9 432)	(8 115)
Payment of finance lease liabilities		(10 711)	(12 503)
Government grants received	15	50	-
Net cash from/(used in) financing activities		7 253	(15 598)
Change in cash and cash equivalents		(3 437)	801
Cash and cash equivalents at 1 January		4 844	4 043
Cash and cash equivalents at 31 December		1 407	4 844

The notes, set out on pages 9 to 34, are an integral part of these financial statements.

Statement on changes in equity

Thousand Litas	Note	Share capital	Share premium	Own shares	Compulsory reserve	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2005		54 205	27 246	(108)	4 842	4 066	12 291	5 521	108 063
Profit allocation					578		(800)	222	0
Dividends								(8 115)	(8 115)
Depreciation of revaluated part						(172)		197	25
Acquisition of own shares				(1 000)					(1 000)
Net profit for 2005								15 294	15 294
As at 31 December 2005		54 205	27 246	(1 108)	5 420	3 894	11 491	13 119	114 267
As at 1 January 2006		54 205	27 246	(1 108)	5 420	3 894	11 491	13 119	114 267
Profit allocation							(7 991)	7 991	
Dividends								(9 432)	(9 432)
Depreciation of revaluated part						(173)		206	33
Net profit for 2006								18 492	18 492
As at 31 December 2006	14	54 205	27 246	(1 108)	5 420	3 721	3 500	30 376	123 360

The notes, set out on pages 9 to 34, are an integral part of these financial statements.

Notes to the financial statements

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

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

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

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

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

As at 31 December 2006 the Company had 2 707 employees (2005: 2 732 employees).

The financial statements were approved by the Board on 31 March 2007.

Significant accounting policies

Statement of compliance

These are the financial statements of a separate company AB Pieno Žvaigždės, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union, further to the IAS Regulation (EC 1606/2002).

Basis of preparation

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

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

Notes to financial statements

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

Judgements made by management in the application of IFRSs adopted in the EU that have significant effect on the financial statements are discussed on page 18.

The accounting policies of the Company, set out below, have been applied consistently to all periods presented in these financial statements, except for those which changed due to changes in previously valid IFRS and the new IFRSs effective as of 1 January 2006.

Derivative financial instruments

The Company did not use any derivative financial instruments nor maintained any risk hedging accounting.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the fair value was determined. The Company‘s transactions are accounted for in Litas.

Property, plant and equipment

Owned assets

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

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

Notes to financial statements

The revaluation reserve is recycled to retained earnings corresponding to depreciation and/or disposal of revalued buildings.

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

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

Leased assets

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

Subsequent expenditure

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

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

Intangible assets

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

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

Notes to financial statements

Subsequent expenditure

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

Amortisation

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

Goodwill

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

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

Financial instruments

Investments in equity securities

Financial asset is recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire.

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

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

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

Other financial instruments

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

Notes to financial statements

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

Inventories

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

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 goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

Notes to financial statements

Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

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

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

Impairment of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

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

Notes to financial statements

Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

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

Government grants

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

Expenses

Operating lease payments

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

Finance lease payments

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

Notes to financial statements

Net finance costs

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

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

Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

Segment reporting

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

Notes to financial statements

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.

- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has not yet completed its analysis of the impact of the new Standard.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. IFRIC 8 is not relevant to the Company's operations as the Company has not entered into any share-based payment arrangements.

- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). The adoption of IFRIC 10 is not expected to have any significant impact on the financial statements.

Notes to financial statements

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations.

Significant accounting estimates and judgments

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

Significant accounting estimates and assumptions

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

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual debtor, e.g. adverse change in the payment status of the debtor, etc.

Judgments

The Company has recognised deferred tax assets based on the judgement of management that realisation of the related tax benefits through future taxable profits are probable. Management's judgements are based on internal budgets and forecasts.

In respect of property no valuation was carried out at 31 December 2006 as it is considered that no significant changes in the market occurred since the date of the last revaluation.

Notes to financial statements

1. Segment reporting

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

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

Results as to geographical segments for 2006 are as follows:

Thousand Litas	Lithuania	Russia	Poland	Germany	Other countries	Total
Revenue from external customers	295 207	195 649	16 425	15 976	21 776	545 033
Segment result	59 893	36 615	2 873	1 021	2 964	103 366
Segment receivables	52 650	22 094	980	60	278	76 062
Other assets	243 952					243 952
Total assets						320 014
Acquisitions of property, plant and equipment	44 881					44 881

Results as to geographical segments for 2005 are as follows:

Thousand Litas	Lithuania	Russia	Poland	Germany	Other countries	Total
Revenue from external customers	256 357	126 021	23 019	13 039	27 895	446 331
Segment result	54 543	29 421	4 521	425	2 605	91 515
Segment receivables	41 719	11 498	1 241	36	988	55 482
Other assets	241 861					241 861
Total assets						280 588
Acquisitions of property, plant and equipment	53 444					53 444

Notes to financial statements

2. Other operating income

Thousand Litas	2006	2005
Income from rent and other services	187	180
Gain on disposal of property, plant and equipment	444	159
Other	589	550
	1 220	889

3. Sales and administrative costs

Thousand Litas	2006	2005
Staff costs	(33 802)	(31 218)
Marketing and advertising	(5 496)	(6 346)
Depreciation and amortisation	(7 353)	(6 092)
Fuel	(5 194)	(4 767)
Impairment of receivables	(650)	(79)
Taxes, except income tax	(1 535)	(2 235)
Materials and spare parts	(3 874)	(1 118)
Transport	(381)	(682)
Communications	(1 100)	(1 121)
Utilities	(2 088)	(1 519)
Office articles	(344)	(225)
Repair	(2 262)	(1 318)
Insurance	(812)	(224)
Other	(11 312)	(12 367)
	(76 203)	(69 311)

4. Finance income

Thousand Litas	2006	2005
Interest	53	52
Other	220	209
Total finance income	273	261

5. Finance expenses

Thousand Litas	2006	2005
Interest on loans and leasing liabilities	(5 224)	(3 888)
Loss on foreign currency exchange	(120)	(923)
Other	(9)	(142)
Total finance expenses	(5 353)	(4 953)

Notes to financial statements

6. Corporate income tax

Recognised in the income statement

Thousand Litas	2006	2005
Income tax for the current year	(4 537)	(3 152)
Change in deferred tax	(274)	45
Total income tax recognised in the income statement	(4 811)	(3 107)

The decrease in deferred tax liability of 33 tLTL, related to revaluation of buildings, was recognised directly in equity in 2006 (2005 : 25 tLTL). The carrying amount of the deferred tax liability recognised in equity as at 31 December 2006 amounts to 673 tLTL.

Reconciliation of effective tax rate

Thousand Litas	2006		2005	
Result before tax		23 303		18 401
Income tax using prevailing tax rate	19,0%	4 428	15,0%	2 760
Non-deductible expenses	3,5%	819	2,7%	490
Non-taxable income	-1,2%	-286	-0.8%	-145
Effect of charity (deducted twice)	-0,7%	-150	0,0%	0
Effect of change in tax rate	0,0%	0	0,0%	2
	20,6%	4 811	16,9%	3 107

The Law on Social Tax is effective as of 1 January 2006 and until 31 December 2007. According to the mentioned law, payers of the social tax are companies, which pay corporate income tax prescribed by the Law on Profit Tax. The tax base for the additional tax is taxable profit determined as to the Law on Profit Tax. In 2006 the social tax rate was 4% and in 2007 – 3%. Therefore, profit for 2006 is taxed applying the 19% tax rate, and in 2007 - 18% tax rate.

7. Earnings per share ratio

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

	2006	2005
Number of shares in issue calculated using weighted average method	54 205	54 205
Net profit for the year, in thousand Litas	18 492	15 294
Basic earnings per share, in Litas	0.34	0.28

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

Notes to financial statements

8. Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
Balance at 1 January 2005	74 044	162 682	51 711	13 209	301 646
Adjustments	(30 898)				(30 898)
Acquisitions		31 160	5 082	16 585	52 827
Disposals and write-offs	(139)	(2 511)	(2 172)	(796)	(5 479)
Re-classification	9 452	8 215	(856)	(16 811)	-
Balance at 31 December 2005	52 598	199 546	53 765	12 187	318 096
Balance at 1 January 2006	52 598	199 546	53 765	12 187	318 096
Acquisitions	435	30 926	7 015	5 980	44 356
Disposals and write-offs	(358)	(2 262)	(1 939)		(4 559)
Re-classification	11 875	6 285	(4 675)	(13 485)	-
Balance at 31 December 2006	64 550	234 495	54 166	4 682	357 893
Depreciation and impairment					
Balance at 1 January 2005	22 293	78 817	30 333		131 443
Adjustments	(22 293)				(22 293)
Depreciation for the year	1 678	21 710	5 260		28 648
Depreciation of disposals		(1 471)	(1 966)		(3 437)
Re-classification					-
Balance at 31 December 2005	1 678	99 056	33 627	-	134 361
Balance at 1 January 2006	1 678	99 056	33 627		134 361
Depreciation for the year	2 414	26 656	5 071		34 141
Depreciation of disposals	(238)	(1 970)	(1 865)		(4 073)
Re-classification	25	3 398	(3 423)		-
Balance at 31 December 2006	3 879	127 140	33 410	-	164 429
Impairment at 1 January 2005	8 605	2 191	4 710	464	15 970
Adjustments	(8 605)				(8 605)
Change during the year					-
Impairment at 31 December 2005	-	2 191	4 710	464	7 365
Impairment at 1 January 2006		2 191	4 710	464	7 365
Change during the year		(444)	(931)		(1 375)
Impairment at 31 December 2006	-	1 747	3 779	464	5 990
Carrying amounts					
1 January 2005	*43 146*	*81 674*	*16 668*	*12 745*	*154 233*
31 December 2005	*50 920*	*98 299*	*15 428*	*11 723*	*176 370*
1 January 2006	*50 920*	*98 299*	*15 428*	*11 723*	*176 370*
31 December 2006	*60 671*	*105 608*	*16 977*	*4 218*	*187 474*

Due to revaluation of buildings, their accumulated depreciation and impairment losses as at 1 January 2005 were set off against acquisition cost of buildings at that date.

Notes to financial statements

Impairment

In 2006 the impairment loss of 1 375 tLTL was reversed for machinery, equipment and other assets. The reversal is related to the expected disposal of the mentioned assets.

Revaluation of property, plant and equipment

The Company carried out the revaluation of buildings as at 31 December 2004. An increase in the value of the buildings amounting to 4 796 tLTL was recorded as revaluation reserve within equity as at 31 December 2004 net of deferred tax of 730 tLTL. A decrease in the value of buildings amounting to 8 050 tLTL was recorded under operating costs in the income statement for 2004. The revaluation was based on fair values determined by the independent valuators applying sales comparison approach.

Pledges

Property, plant and equipment with the carrying amount of 58 416 tLTL as at 31 December 2006 (2005 : 68 136 tLTL) have been pledged to secure the bank loans (refer to note 16).

Leased assets

The Company has acquired machinery and equipment, transport vehicles and other assets by way of finance lease. As at 31 December 2006 the carrying amount of the assets acquired by way of finance lease amounted to 30 634 tLTL (2005: 35 484 tLTL). Finance lease liabilities are secured by the leased assets (refer to note 16).

Depreciation

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

Thousand Litas	**2006**	**2005**
Cost of sales	25 601	21 311
Sales and administrative expenses	6 497	6 092
	32 098	27 403

The remaining depreciation amounting to 2 043 tLTL is included in the carrying amount of inventories as at 31 December 2006.

Notes to financial statements

9. Intangible assets

Thousand Litas	Goodwill	Software, etc.	Total
Cost			
Balance at 1 January 2005	335	4 487	4 822
Acquisitions		617	617
Disposals		(62)	(62)
Balance at 31 December 2005	335	5 042	5 377
Balance at 1 January 2006	335	5 042	5 377
Acquisitions		525	525
Disposals		(322)	(322)
Balance at 31 December 2006	335	5 245	5 580
Amortisation and impairment			
Balance at 1 January 2005		2 452	2 452
Amortisation for the year		829	829
Amortisation of disposed assets		(59)	(59)
Balance at 31 December 2005	-	3 222	3 222
Balance at 1 January 2006		3 222	3 222
Amortisation for the year		856	856
Amortisation of disposed assets		(309)	(309)
Balance at 31 December 2006	-	3 769	3 769
Carrying amounts			
1 January 2005	335	2 035	2 370
31 December 2005	335	1 820	2 155
1 January 2006	335	1 820	2 155
31 December 2006	335	1 476	1 811

Amortisation is included in sales and administrative expenses.

Goodwill at 31 December 2006 arose from the acquisition of AB Panevėžio Pienas which was merged into the Company in 2004.

Notes to financial statements

10. Investments available for sale

Thousand Litas	2006	2005
Investments available for sale	275	350
	275	350

The major part of investments available for sale as at 31 December 2006 includes shares of UAB Kapitalo Srautai (representing 15.3% ownership interest). UAB Kapitalo Srautai is engaged in financial brokerage activities. Due to the fact that the fair value of the mentioned shares cannot be reliably determined, they are stated at acquisition cost, which amounts to 200 tLTL. The other available for sale investments are also stated at cost due to absence of reliable estimate of their fair value.

11. Inventories

Thousand Litas	**2006**	**2005**
Raw materials	16 957	12 336
Work in progress	25 923	19 307
Finished goods	8 126	7 316
Goods for re-sale	200	94
	51 206	39 053

Raw materials include milk and other materials used in production.

As at 31 December 2006 the Company did not have any inventories, recognised at fair value less costs to sell.

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

Cost of sales (manufactured goods sold)	(441 667)	(354 816)
Sales and administrative expenses (consumption of inventories)	(9 068)	(10 016)
Other operating costs (sold raw materials, spare parts)	(609)	(428)
	(451 344)	(365 260)

Sales and administrative expenses include consumed fuel, spare parts as well as write down related to slow moving and obsolete inventories.

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

Inventories with the carrying amount of up to 51 206 tLTL (2005: 39 053 tLTL) as at 31 December 2006 have been pledged to secure bank loans (refer to note 16).

Notes to financial statements

12. Receivables

Thousand Litas	2006	2005
Trade receivables	58 767	42 837
Receivable government grants	12 781	12 996
Prepayments	4 510	2 826
Other receivables	758	933
	76 816	59 592
Impairment losses	(754)	(4 110)
	76 062	55 482

Receivable government grants comprise amounts receivable from the National Settlement Agency for the cheese and other milk products exported as to export licenses. As at 31 December 2006 the National Settlement Agency confirmed the export licenses for an amount of 1 716 tLTL (2005: 4 895 tLTL) while the remaining amount of 11 065 tLTL (2005: 8 101 tLTL) is being checked for compliance with the terms and conditions stated in the license.

The carrying amount of receivables approximates the fair value because of their short term nature.

13. Cash and cash equivalents

Thousand Litas	2006	2005
Cash at bank	602	4 205
Cash in hand	805	639
	1 407	4 844

As at 31 December 2006, cash at bank and cash inflows of up to 602 tLTL (2005: 2 240 tLTL) have been pledged to secure the liabilities to the banks (refer to note 16).

Notes to financial statements

14. Share capital

As at 31 December 2006 the share capital comprised 54 205 thousand ordinary shares at par value of 1 Litas each.

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

Own shares

The Company as at 31 December 2006 has repurchased 308 thousand own shares (2005: 308 thousand own shares).

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

Legal reserve

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

Revaluation reserve

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

When revalued buildings are depreciated a transfer from the revaluation reserve to retained earnings is made. The amount is determined as the difference between the depreciation based on the revalued carrying amount and the depreciation based on the original cost of the buildings.

Other reserves

Other reserves amount to 3 500 tLTL as at 31 December 2006 (2005: 11 491 tLTL).

Part of other reserves, amounting to 3 000 tLTL (2005: 4 000 tLTL), is allocated for acquisition of own shares. As to Lithuanian legislation, this reserve will be accounted for until the Company purchases its own shares.

Dividends per share paid in 2006 were 0.175 LTL (2005: 0.15 LTL).

Notes to financial statements

15. Government grants

Thousand Litas	2006	2005
Government grants as at 1 January	10 142	10 142
Increase during the period	50	
Government grants as at 31 December	10 192	10 142
Amortisation as at 1 January	5 026	2 952
Amortisation for the year	2 093	2 074
Amortisation as at 31 December	7 119	5 026
Net carrying amount at 1 January	5 116	7 190
Net carrying amount at 31 December	**3 073**	**5 116**

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

Government grants are amortised over the same period as the equipment and other assets for which the government grants were received. The amortisation of government grants is included in the cost of sales as well as depreciation of machinery and equipment for which the government grants were received.

16. Interest bearing loans and borrowings

The Company's loans and borrowings are as follows:

Creditor	Ref.	Original liability amount / credit limit	Balance 31 12 2006	Balance 31 12 2005
AB Hansabankas	a)	21 578	14 939	21 578
AB Hansabankas	b)	3 000	2 755	-
AB SEB Vilniaus bankas	c)	22 112	19 163	21 092
AB SEB Vilniaus bankas	d)	22 887	22 393	14 521
AB Bankas DnB Nord	e)	23 000	23 000	23 000
AB Bankas DnB Nord	f)	4 000	0	2 052
AB Bankas DnB Nord	g)	2 293	0	2 190
AB Bankas DnB Nord	h)	10 000	9 530	-
Leasing companies	i)	45 796	31 990	36 717
Bonds	j)	20 000	20 000	-
Total liabilities			143 770	121 150
Less: current part			(23 953)	(24 273)
Total non-current part			119 817	96 877

Notes to financial statements

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

b) The loan (overdraft) is received for working capital needs. The loan matures on 31 October 2007.

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

d) The loan (overdraft) is received for working capital needs. The loan matures on 10 August 2008. The loan is secured by pledging inventories of the Company.

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

f) The loan (overdraft) is received for working capital needs. The loan was repaid in 2006.

g) The loan (overdraft) is received for working capital needs. The loan was repaid in 2006.

h) The loan (overdraft) is received for working capital needs. The loan (overdraft) has combined the loans described in paragraphs (f) and (g).

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

j) On 2 October 2006 the Company issued the bonds emission of 20 million LTL. The bonds repurchase will be take place on 2 October 2009. Funds from issued bonds have been used for financing investment projects.

All loans and other financial liabilities as at 31 December 2006 are denominated in EUR or LTL. Loans denominated in EUR amount to 57 102 tLTL as at 31 December 2006 (2005: 65 670 tLTL).

All interest rates on loans, borrowings and finance leases are variable and consist of LIBOR, EURIBOR or VILIBOR plus a fixed margin. Interest is repriced every 3 to 6 month depending on the loan/lease agreement and for this reason carrying amounts are assumed to approximate fair values of these loans/leases.

Notes to financial statements

The annual interest rate for bonds is an interest rate of three years standard interest rate swap (IRS) plus a 1,1% margin. IRS was determined at 6 p.m. on the last working day before the beginning of the bonds emission as to the average quotation of sale-purchase presented in the „Reuters“ information system site EURIRS. The determined interest rate is 4,96%. Interest to bond owners will be paid three times. The first payment will be on 2 October 2007, the second - 2 October 2008, the third – on the bonds repurchase day, i.e. 2 October 2009 together with the nominal value of the bonds. Calculation of the interest starts as of 2 October 2006 which is the first day the bonds come into effect.

For the loans received the Company has pledged its non-current assets with the carrying amount of 58 416 tLTL (2005 : 68 136 tLTL), inventories with the carrying amount up to 51 206 tLTL (2005: 39 053 tLTL) and cash at bank and cash inflows up to 602 tLTL (2005: 2 240 tLTL) as at 31 December 2006.

Loan repayment schedules, except for finance lease liabilities

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

Thousand Litas	**2006**	**2005**
Within 1 year	14 503	12 810
From 1 to 5 years	97 277	71 623
Carrying value of interest-bearing loans	111 780	84 433

Finance lease liabilities

Finance lease payments are as follows:

Thousand Litas	**2006**	**2005**
Within 1 year	10 730	12 827
From 1 to 5 years	25 117	26 900
	35 847	39 727
Future interest of finance lease	(3 857)	(3 010)
Carrying value of finance lease liabilities	31 990	36 717

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

Interest rates

Effective interest rates of the loans and finance leases can be presented as follows:

%	**2006**	**2005**
Long-term loans	4.6 – 4.9	3.6 – 3.8
Short-term loans	4.6	4.0 – 4.5
Finance lease	4.5 – 4.9	3.1 – 5.0

Notes to financial statements

17. Deferred tax assets and liabilities

The deferred tax asset and liabilities calculated applying 19%, 18% and 15% tax rates effective at the balance sheet date are attributed to the following items:

Thousand Litas	Asset		Liabilities		Net value	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Property, plant and equipment	(2 124)	(2 380)	884	917	(1 240)	(1 463)
Inventories	(27)	(46)			(27)	(46)
Accrued costs	(162)	(161)			(162)	(161)
Tax (asset) / liability	(2 313)	(2 587)	884	917	(1 429)	(1 670)

Movements in temporary differences during the year can be presented as follows:

Thousand Litas	1 January 2005	Recognised in income	Recognised in equity	31 December 2005
Property, plant and equipment	(1 386)	(52)	(25)	(1 463)
Inventories	(34)	(12)	-	(46)
Accrued costs	(180)	19	-	(161)
Tax (asset) / liability	(1 600)	(45)	(25)	(1 670)

Thousand Litas	1 January 2006	Recognised in income	Recognised in equity	31 December 2006
Property, plant and equipment	(1 463)	256	(33)	(1 240)
Inventories	(46)	19	-	(27)
Accrued costs	(161)	(1)	-	(162)
Tax (asset) / liability	(1 670)	274	(33)	(1 429)

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

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Thousand Litas	2006	2005
Impairment of receivables	754	4 110
	754	4 110

Deferred tax assets have not been recognized in respect of these items because it is not probable that temporary differences will crystallize in the future.

Notes to financial statements

18. Trade and other payable amounts

Thousand Litas	2006	2005
Payable to suppliers	38 604	29 339
Vacation accrual	4 711	4 685
Taxes and social security contributions payable	3 741	2 226
Salaries payable	2 345	1 638
Other	316	1 351
	49 717	39 239

19. Financial instruments

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

Credit risk

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

Foreign exchange risk

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

As at 31 December 2006 there are no significant monetary assets and liabilities denominated in other currencies than LTL and EUR.

Interest rate risk

The Company is subject to interest rate cash flow risk because interest-bearing loans are subject to variable interest, related to LIBOR, EURIBOR, VILIBOR and varying from LIBOR/EURIBOR/VILIBOR+0.8% to LIBOR/EURIBOR/VILIBOR+1.0%.

As at 31 December 2006 the Company did not use any financial instruments to hedge its cash flows and interest rate risks.

Notes to financial statements

20. Pledges and capital commitments

The following assets have been pledged to secure the bank loans as at 31 December 2006:

- Property, plant and equipment with the carrying amount of 58 416 tLTL (2005: 68 136 tLTL),
- Inventories with the carrying amount up to 51 206 tLTL (2005: 39 053 tLTL),
- Cash and cash inflows amounting to 602 tLTL (2005: 2 240 tLTL),
- The land rent right.

As at 31 December 2006 the Company has the following capital commitments:

Asset to be acquired	Outstanding contractual amount tLTL	Expected date of asset supply
Equipment	155	2007 I quarter
Equipment	2,375	2007 I quarter
Equipment	1,015	2007 I quarter
Equipment	2,113	2007 I-II quarters
Equipment	84	2007 I quarter
Equipment	2,417	2007 I quarter
Equipment	445	2007 I quarter
Equipment	3,042	2007 II quarter
Equipment	3,142	2007 II quarter
Equipment	675	2007 I quarter
Equipment	512	2007 I quarter
Equipment	736	2007 I quarter
Equipment	964	2007 I quarter
Equipment	690	2007 II quarter
Total	**18 365**	

Notes to financial statements

21. Related parties

Transactions with related parties can be specified as follows:

Thousand Litas	2006 m.		2005 m.	
	Sales	**Purchases**	**Sales**	**Purchases**
Vitalija Jankauskienė	58			
ŽŪB Draugas		5 972		4 719
UAB Jansvis		695		1 827
UAB Žaibo Ratas		166		
	58	6 833	-	6 546

Vitalija Jankauskienė is a family member of the director of AB Pieno Žvaigždės branch Pasvalio Sūrinė. ŽŪB Draugas is a related company through a Chairman of the Board of AB Pieno Žvaigždės. UAB Jansvis is a related company through a family member of the director AB Pieno Žvaigždės branch Pasvalio Sūrinė. UAB Žaibo Ratas is a related company through a Board member of AB Pieno Žvaigždės.

Sales and purchases to/from related parties were carried out on market terms.

Remuneration of key management personnel is included under sales and administrative expenses category "Staff costs" (refer to note 3):

Thousand Litas	**2006**	**2005**
Remuneration of key management personnel	2 036	2 017

22. Post balance sheet events

There were no significant events after the balance sheet date.