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AUDITOR'S REPORT TO THE SHAREHOLDERS OF ROKIŠKIO SŪRIS AB

1. We have audited the accompanying consolidated balance sheet of Rokiškio Sūris AB (hereinafter "the Group") as at 31 December 2003, and the related statements of consolidated income and cash flows for the year then ended. These financial statements set out on pages 6 to 30 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2003 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

On behalf of PricewaterhouseCoopers UAB.

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
26 March 2004

ROKIŠKIO SŪRIS AB
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS

AB „ROKIŠKIO SŪRIS“, Pramonės g. 3, LT-42150 Rokiškis, Lietuva
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Įmonės kodas 7305751, PVM kodas 730575113, a/s 467801 AB „Vilniaus bankas“ Rokiškio filialas, b/k 260101356
LR Įmonių rejestras LR Ūkio Ministerija, Gedimino pr. 38/2

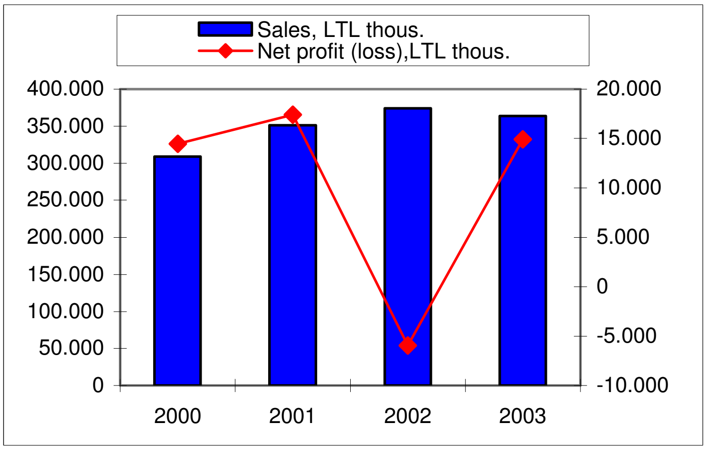
Operating and financial review

The Group's financial performance has been very successful during the past several years. All years of operation were profitable for the Company, and only in 2002 the Group suffered a loss of LTL 5,966 thousand. The year 2003 was again profitable for the Group. The profit for the year 2003 amounted to LTL 14,906 thousand in accordance with International Financial Reporting Standards.

In 2003, the Group's turnover decreased by 2.75 per cent and amounted to LTL 363,843 thousand, i.e. less by LTL 10,307 thousand as compared to 2002. The main reasons for such decrease were a significant fall in the US dollar exchange rate by 16.6 percent and reduced quantities of cheese sold.

Gross margins in 2003, 2002 and 2001 were 20.8, 9.8 and 14.2 percent, respectively. This is a very good result since it exceeded the gross margin budgeted for 2003.

Finance costs (net) increased up to LTL 2,392 thousand in 2003 as compared to LTL 717 thousand in 2002. The main factors that caused such an increase in finance costs were a continuously falling US dollar exchange rate.



In 2003, the Parent started the fulfilment of the first stages in SAPARD programme. 2 stages of the programme were successfully completed during the year. SAPARD programme granted LTL 4,6 million for the first stage. The financing of the second stage is expected to commence in the beginning of 2004 and it should amount to LTL 2,2 million.

In 2003, the Group's capital investments in property, plant and equipment and intangible assets amounted to LTL 28,312 thousand (LTL 20,202 thousand and LTL 35,487 thousand in 2002 and 2001, respectively). These investments were financed through borrowings from the banks, also using turnover funds and SAPARD grants.

In 2003, the borrowings and finance lease liabilities decreased by LTL 8,250 thousand and as at 31 December 2003 amounted to LTL 62,427 thousand (31 December 2002: LTL 70,677 thousand). As at 31 December 2003, the Group's current and non-current borrowings amounted to LTL 39,982 thousand LTL 22,445 thousand, respectively.

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The Group has targets to achieve sales of LTL 426,132 thousand and net profitability margin of not less than 5-6 per cent in 2004. These targets are expected to be achieved through maintaining the leading position among diary processing companies in Lithuania and the Baltic States. After Lithuania joins the EU, the Group's position will strengthen as a result of significant increase in exports of cheese to the EU countries. In addition, the Group has set the target to raise its sales in Lithuania, promote consumption of diary products and introduce new products for the market.

During 2004, the Company plans to increase exports to the EU due to more favourable trade conditions as a result of joining the EU on 1 May 2004.

The Company will continue implementing the stages of SAPARD programme, from which it plans to receive approximately LTL 8 million in 2004.

Currently, the Group is preparing for other important projects related to quality improvement and its standards compliance with the EU requirements, with the help of different types of support from EU and structural funds.

Antanas Trumpa
Director

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF ROKIŠKIO SŪRIS AB

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

Consolidated income statement

		Year ended 31 December	
	Notes	**2003**	**2002**
Sales	1	363,843	374,150
Cost of sales		(288,262)	(337,573)
Gross profit		75,581	36,577
Operating expenses	2	(54,742)	(43,552)
Change in goodwill – net	7	1,064	1,027
Profit/(loss) from operations		21,903	(5,948)
Finance costs – net	3	(2,392)	(717)
Group profit/(loss) before tax		19,511	(6,665)
Income tax expense	4	(4,108)	-
Profit/(loss) from ordinary activities after tax		15,403	(6,665)
Minority interest	24	(497)	699
Net profit/(loss)		14,906	(5,966)
Earnings/(loss) per share (LTL per share)	5	3.31	(1.33)

The accounting policies and notes on pages 10 to 30 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 6 to 30 were approved by the Board of Directors and were signed on it's behalf by the Director on 15 March 2004.

Antanas Trumpa
Director

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

Consolidated balance sheet

		As at 31 December			
	Notes	**2003**	**2003**	**2002**	**2002**
ASSETS					
Non-current assets					
Property, plant and equipment	6	140,115		130,864	
Intangible assets (including goodwill)	7	(158)		(2,511)	
Long-term receivables	8	17,285		19,217	
Available-for-sale investments	9	56		56	
			157,298		147,626
Current assets					
Inventories	10	77,028		71,347	
Receivables, prepayments and deferred charges	11	53,992		55,884	
Available-for-sale investments	9	11,249		7,995	
Cash and cash equivalents	12	5,222		3,392	
			147,491		138,618
Total assets			304,789		286,244
SHAREHOLDERS' EQUITY					
Ordinary shares	13	47,462		47,462	
Share premium		41,473		41,473	
Reserve for acquisition of treasury shares	14	10,000		10,000	
Treasury shares	15	(6,224)		(6,224)	
Other reserves	14	69,805		69,805	
Retained earnings		34,077		19,171	
Total shareholders' equity			196,593		181,687
Minority interest	24		1,517		1,020
LIABILITIES					
Non-current liabilities					
Borrowings	16	17,424		16,223	
Deferred capital grant	17	6,351		-	
			23,775		16,223
Current liabilities					
Current tax liabilities		4,003		-	
Borrowings	16	45,003		54,454	
Trade and other payables	18	33,898		32,860	
			82,904		87,314
Total liabilities			106,679		103,537
Total equity and liabilities			304,789		286,244

The accounting policies and notes on pages 10 to 30 form an integral part of these consolidated financial statements.

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

Consolidated statement of changes in shareholders' equity

	Notes	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2002		47,462	41,473	-	(5,730)	69,805	35,159	188,169
Purchase of treasury shares	15	-	-	-	(957)	-	-	(957)
Disposals of treasury shares	15	-	-	-	463	-	(22)	441
Transfer to reserves		-	-	10,000	-	-	(10,000)	-
Net loss		-	-	-	-	-	(5,966)	(5,966)
Balance at 31 December 2002/1 January 2003		47,462	41,473	10,000	(6,224)	69,805	19,171	181,687
Net profit		-	-	-	-	-	14,906	14,906
Balance at 31 December 2003		47,462	41,473	10,000	(6,224)	69,805	34,077	196,593

The accounting policies and notes on pages 10 to 30 form an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

	Notes	Year ended 31 December 2003	2002
Cash flows from operating activities			
Cash generated from operations	23	35,470	2,747
Interest paid		(3,468)	(4,046)
Net cash from/(used in) operating activities		32,002	(1,299)
Cash flows from investing activities			
Acquisition of subsidiary	19	(101)	(49)
Purchase of property, plant and equipment	6	(27,740)	(19,215)
Purchase of intangible assets	7	(357)	(504)
Purchase of available-for-sale investments		-	(4,304)
Loans granted to farmers and employees		(798)	(1,460)
Other loans granted		-	(2,979)
Proceeds from sale of property, plant and equipment		618	86
Capital grants and compensation of interest expense (grants) and received		5,201	-
Loan repayments received from farmers and employees		315	174
Interest received	3	227	274
Net cash used in investing activities		(22,635)	(27,977)
Cash flows from financing activities			
Purchase of treasury shares		-	(957)
Proceeds from disposals of treasury shares		-	441
Proceeds from borrowings		36,932	35,680
Repayments of borrowings		(43,716)	(6,688)
Finance lease principal payments		(646)	(329)
Net cash (used in)/from financing activities		(7,430)	28,147
Net increase/(decrease) in cash and cash equivalents		1,937	(1,129)
Cash and cash equivalents at beginning of the year		3,285	4,414
Cash and cash equivalents at end of the year		5,222	3,285

The accounting policies and notes on pages 10 to 30 form an integral part of these consolidated financial statements.

General information

Rokiškio Sūris AB (hereinafter "the Parent") is a public listed company incorporated in Rokiškis, 160 km North–West from Vilnius, the capital of Lithuania. The address of its registered office is as follows:

Pramonės 3,
LT-42150 Rokiškis
Lithuania

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

The consolidated Group (hereinafter "the Group") consists of the Parent, Rokiškio Sūris AB, and its three branches (2002: four branches) and four subsidiary undertakings (2002: three subsidiary undertakings). The branches and subsidiaries included in the Group's consolidated financial statements are indicated below:

Branches	Operating as at 31 December 2003	2002
Ukmergės Pieninė	Yes	Yes
Utenos Pienas	Yes	Yes
Eišiškių Pieninė	Yes	Yes
Zarasų Pieninė	No	Yes

Subsidiaries	Group's share (%) as at 31 December 2003	2002
Švenčionių Pieninė AB	90.60	90.60
Varėnos Pieninė AB	49.94	49.94
Ignalinos Pieninė AB	49.91	49.91
Kalora UAB	100.0	-

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

In June 2003, the Parent closed off its branch Zarasų Pieninė. In August 2003, the Parent acquired 100.0 per cent in Kalora UAB.

The Group's main line of business is the production of cheese and a wide range of milk products. As at 31 December 2003, the Group employed 2,348 people (2002: 2,450 people).

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

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

B Group accounting

Subsidiary undertakings, which are those companies in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill. See Accounting policy K for the accounting policy on goodwill.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

C Foreign currency translation

(1) Measurement currency

The consolidated financial statements are presented in Lithuanian litas (LTL), which is the measurement currency of the Parent and its subsidiaries.

Until 1 February 2002, the litas was fixed to the US dollar at an exchange rate of LTL 4 = USD 1. On 2 February 2002, the litas was repegged to the euro at an exchange rate of LTL 3.4528 = EUR 1.

As at 31 December 2003, LTL:USD exchange rate was LTL 2.7621 = USD 1 (2002: LTL 3.3114 = USD 1), and LTL:EUR exchange rate was LTL 3.4528 = EUR 1 (2002: LTL 3.4528 = EUR 1).

(2) Transactions and balances

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

D Revenue recognition

Sales revenue comprises the invoiced value for the sale of goods and services net of value-added tax and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

E Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the shareholders of the Group.

F Earnings per share

Basic earnings per share is calculated by dividing the net profit (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

G Segment reporting

The Group is mainly operating in one business segment: manufacture of a cheese and a range of milk products, therefore no primary segment information is disclosed. Geographical segments provide products within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

H Income tax

Profit is taxable at a 15 per cent (2002: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

Expenses of income tax are calculated and accrued for in the consolidated financial statements on the basis of information available at the moment of the preparation of the consolidated financial statements, and estimates of income tax performed by the management in accordance with tax legislation of the Republic of Lithuania.

I Property, plant and equipment

Property, plant and equipment acquired on or after 1 January 1996 is stated at historical cost less accumulated depreciation. Property, plant and equipment acquired on or before 31 December 1995 is stated at historical cost less accumulated depreciation as adjusted for indexation using indexation rates set by the Lithuanian Government for the different asset categories (Accounting policy J).

Depreciation is calculated on the straight-line method to write off the cost of each asset, or its indexed amount, to their residual values over their estimated useful lives as follows:

Buildings	30 - 80 years
Plant & machinery	5 - 35 years
Motor vehicles	3 - 5 years
Equipment and other	3 - 8 years

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

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

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

J Indexation

Four indexations of property, plant and equipment were performed during the period between 1 January 1991 and 31 December 1995. Indexations were performed by indexing the cost and accumulated depreciation of property, plant and equipment applying indexation rates set by the Lithuanian Government for different asset categories. The indexed amounts have not been assessed by an independent, professionally qualified valuers, as required by International Accounting Standards. However, the Directors do not consider that the indexation of property, plant and equipment would mislead the users of these consolidated financial statements.

Indexation rates used for the four indexations were as follows (depending upon the date of acquisition and type of asset):

Indexation effective 1 July 1991	2.2 times
Indexation effective 1 March 1992	2 - 5 times
Indexation effective 1 April 1994	1.4 - 14 times
Indexation effective 31 December 1995	1.6 - 1.7 times

K Intangible assets

(1) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill on acquisitions of subsidiaries is included in intangible assets. Negative goodwill is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

(2) Other intangible assets

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent amortisation. Amortisation is calculated on the straight-line method over 1-5 years.

L Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price or value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

M Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless the Directors have the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments subsequently are carried at fair value. In assessing the fair value, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

N Leases – where the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

O Inventories

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

P Trade and other receivables

Long-term receivables are carried at amortised cost. Current receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows. Bad debts are written off during the year in which they are identified as irrecoverable.

R Cash and cash equivalents

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

S Share capital

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

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

T Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is either recognised in the income statement or capitalised to property, plant and equipment (Accounting policy I) over the period of the borrowings using the effective yield method.

U Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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

Deferred tax assets and liabilities are offset only where International Accounting Standard No. 12 allows this treatment.

W Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants received to maintain the milk purchase prices set by the Government are recognised as a deduction from cost of milk purchased.

Grants received to compensate borrowing costs incurred are recognised as financial activity income over the period necessary to match them with the borrowing costs they are intended to compensate.

Grants received to finance acquisition of property, plant and equipment are included in non-current deferred income and are credited to the cost of sales on a straight-line basis over the expected useful lives of the related assets.

Z Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

X Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to limit certain exposures.

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to sales denominated in US dollars (USD). The Group uses forward currency contracts and currency borrowings to hedge it's exposure to foreign currency risk in connection with the measurement currency.

In 2003, the Group renewed the major contracts, which were denominated in USD. The newly concluded contracts are denominated in euros.

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

Liquidity risk
To maintain sufficient cash and monitor liquidity risk the Group performs weekly, monthly and annual cash flow forecasts.

Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's policy is to maintain a diversified debt portfolio. Split between fixed and floating interest rate depends on the actual situation in the market.

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities are assumed to approximate their fair values.

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

Notes to the consolidated financial statements

1 Segment information

Primary reporting format – business segments

The Group's only business segment is the manufacture of a cheese and a range of milk products.

Secondary reporting format – geographical segments

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

	Sales		Total assets		Capital expenditure	
	2003	2002	2003	2002	2003	2002
Lithuania	182,136	151,224	304,789	286,244	28,312	20,202
USA	59,130	108,425	-	-	-	-
Netherlands	36,003	50,944	-	-	-	-
Russia	24,103	17,703	-	-	-	-
Poland	18,380	4,432	-	-	-	-
Germany	12,034	4,328	-	-	-	-
Denmark	11,137	-	-	-	-	-
Latvia	4,145	498	-	-	-	-
Canada	3,519	10,798	-	-	-	-
France	2,742	343	-	-	-	-
Japan	1,817	1,928	-	-	-	-
Cyprus	-	6,864	-	-	-	-
Uzbekistan	-	4,111	-	-	-	-
Other	8,697	12,552	-	-	-	-
	363,843	374,150	304,789	286,244	28,312	20,202

2 Operating expenses

	2003	2002
Employee compensation costs	14,956	12,852
Transportation services	4,286	3,636
Compensation for the marketing assistance received (Note 21)	3,536	4,296
Mediation services	3,519	2,044
Accrued bonuses and one-off payments	2,914	2,072
Provisions for impairment and write-offs of loans granted to farmers	2,814	438
Promotions	2,475	2,001
Taxes	2,157	2,358
Depreciation of property, plant and equipment	2,096	2,623
Provision for and write-offs of slow moving and obsolete inventory	1,997	1,755
Provisions for impairment and write-offs of doubtful and bad receivables	1,646	586
Warehousing services	1,111	285
Telecommunications	957	1,197
Business trips	872	640
Repair and maintenance	725	1,443
Bank charges	411	434
Other external charges	8,270	4,892
	54,742	43,552

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

3 Finance costs – net

	2003	2002
Interest expense:		
– bank borrowings	(3,165)	(3,933)
– finance leases	(88)	(113)
	(3,253)	(4,046)
Loss from derivative financial instruments	(2)	-
Interest income	227	274
Compensation of interest expense (grants)	596	130
Net foreign exchange transaction gain	40	2,925
	(2,392)	(717)

4 Income tax expense

Current tax	4,003	-
Correction of income tax for prior year	105	-
Deferred tax (Note 22)	-	-
	4,108	-

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

	2003	2002
Profit/(loss) before tax and minority interest	19,511	(6,665)
Tax calculated at a tax rate of 15 per cent (2002: 7.5 per cent)	2,927	(500)
Effect of different tax rates applied for subsidiaries	-	(491)
Tax non-deductible expenses	1,819	79
Tax-deductible expenses	(437)	(8)
Income not subject to tax	(428)	(374)
Utilisation of previously unrecognised tax losses	(101)	-
Adjustment of previous year income tax	105	-
Tax charge/(credit) before allowance	3,885	(1,294)
Allowance for deferred profit tax assets (Note 22)	223	1,294
Tax charge	4,108	-

5 Earnings per share

	2003	2002
Net profit/(loss) attributable to shareholders	14,906	(5,966)
Weighted average number of ordinary shares in issue (thousands)	4,497	4,489
Basic earnings/(loss) per share (LTL per share)	3.31	(1.33)

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

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

6 Property, plant and equipment

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 31 December 2001					
Cost or indexation	45,625	88,179	44,524	18,961	197,289
Accumulated depreciation	9,685	39,807	23,361	-	72,853
Net book amount	35,940	48,372	21,163	18,961	124,436
Year ended 31 December 2002					
Opening net book amount	35,940	48,372	21,163	18,961	124,436
Additions	136	2,152	9,283	8,127	19,698
Disposals	(91)	(7)	(72)	(8)	(178)
Write-offs	(4)	(158)	(232)	(3)	(397)
Transfers from CIP	1,380	11,265	4,425	(17,070)	-
Reclassification	37	3,847	(3,884)	-	-
Reclassification to current assets, net	-	-	(15)	-	(15)
Depreciation charge	(879)	(7,231)	(4,570)	-	(12,680)
Closing net book amount	36,519	58,240	26,098	10,007	130,864
At 31 December 2002					
Cost or indexation	46,929	104,270	53,422	10,007	214,628
Accumulated depreciation	10,410	46,030	27,324	-	83,764
Net book amount	36,519	58,240	26,098	10,007	130,864
Year ended 31 December 2003					
Opening net book amount	36,519	58,240	26,098	10,007	130,864
Additions	711	11,983	7,972	7,289	27,955
Acquisition of subsidiaries (Note 19)	56	-	53	-	109
Disposals	(1,655)	(365)	(151)	(1)	(2,172)
Write-offs	-	(177)	(568)	-	(745)
Transfers from CIP	4,842	1,417	696	(6,955)	-
Reclassification	14	1,374	(1,458)	70	-
Reclassification to intangible assets	-	-	(131)	(854)	(985)
Depreciation charge	(945)	(8,353)	(5,613)	-	(14,911)
Closing net book amount	39,542	64,119	26,898	9,556	140,115
At 31 December 2003					
Cost or indexation	50,030	116,789	56,125	9,556	232,500
Accumulated depreciation	(10,488)	(52,670)	(29,227)	-	(92,385)
Net book amount	39,542	64,119	26,898	9,556	140,115

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

6 Property, plant and equipment (continued)

Leased assets included on page 19, where the Group is a lessee under a finance leases comprise certain equipment:

	2003	2002
Cost - capitalised finance leases	1,400	1,883
Accumulated depreciation	(311)	(201)
Net book amount	1,089	1,682

Certain property, plant and equipment with a carrying value of LTL 81,741 thousand (2002: LTL 75,398 thousand) have been pledged as security for bank borrowings.

Borrowing costs amounting to LTL 215 thousand (2002: LTL 903 thousand), arising on financing specifically entered into for the construction of certain property, plant and equipment were capitalised during the year and are included in additions in the table above. A capitalisation rate of 3.68 per cent (2002: 5.94 per cent) was used representing the actual borrowing costs of the loans used to finance the construction.

Depreciation expenses of property, plant and equipment are included within operating expenses and cost of sales lines of the income statement, and within work in progress and finished goods lines of the balance sheet.

7 Intangible assets (including goodwill)

	Negative goodwill	Software & other	Total
Year ended 31 December 2002			
Opening net book amount	(3,362)	23	(3,339)
Additions	-	504	504
Acquisition of subsidiary	(668)	-	(668)
Release/(amortisation charge)	1,027	(35)	992
Closing net book amount	(3,003)	492	(2,511)
At 31 December 2002			
Cost	(4,846)	694	(4,152)
Accumulated (releases)/amortisation	1,843	(202)	1,641
Net book amount	(3,003)	492	(2,511)
Year ended 31 December 2003			
Opening net book amount	(3,003)	492	(2,511)
Additions	-	357	357
Reclassification from property, plant and equipment	-	985	985
Release/(amortisation charge)	1,064	(53)	1,011
Closing net book amount	(1,939)	1,781	(158)
At 31 December 2003			
Cost	(4,846)	2,016	(2,830)
Release/(accumulated amortisation)	2,907	(235)	2,672
Net book amount	(1,939)	1,781	(158)

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

7 Intangible assets (including goodwill) (continued)

Amortisation expenses of software and other intangible assets are included within operating expenses line of the income statement.

8 Long-term receivables

	2003	2002
Long-term loans to farmers	16,213	18,296
Long-term loans to employees	1,072	921
	17,285	19,217

Long-term receivables are stated net of provision for doubtful debts amounting to LTL 4,239 thousand (2002: LTL 1,473 thousand). The current portion of long-term receivables is shown in Note 11.

Loans to farmers were granted with repayment terms ranging from 1 to 15 years. The annual interest rate ranges from 1 to 10 per cent.

Long-term loans to employees were granted with repayment terms ranging from 5 to 25 years. The loans are interest free.

Within loans granted to farmers are non-interest bearing loans totalling LTL 2,029 thousand (2002: LTL 2,886 thousand) granted to the farmers of bankrupted dairies, which have no scheduled terms of repayment.

Included within loans to employees and farmers is a certain amount of loans granted to Directors and Board member of the Group (Note 25).

In the opinion of the Parent’s management, the carrying amounts of long-term receivables approximate their fair value.

9 Available-for-sale investments

	2003	2002
At beginning of year	8,051	3,736
Additions	3,254	4,315
At end of year	11,305	8,051
Non-current	56	56
Current	11,249	7,995
	11,305	8,051

In May 2003, the Parent acquired an additional 10.31 per cent of share capital of Panevėžio Pienas AB.

Shares of Panevėžio Pienas AB with a carrying value of LTL 7,995 thousand have been pledged as security for bank borrowings.

In July 2003, the Parent granted disposition rights over the shares of Panevėžio Pienas AB to Prudentia Ieguldijumu Parvaldes Sabiedriba A/S incorporated in Latvia for subsequent sale of the shares directly to the potential investor.

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

9 Available-for-sale investments (continued)

The details of available-for-sale investments held as at 31 December 2003 were as follows:

	Number of shares in issue	Nominal value of share capital in issue	% interest held	Country of incorporation
Panevėžio Pienas AB	14,115,760	28,232	35.30	Lithuania
Pieno Žvaigždės AB	54,030,451	54,030	Less than 1	Lithuania
Žaliasis Taškas UAB	74	1,110	1.35	Lithuania
Žemaitijos Pienas AB	3,700,000	37,000	Less than 1	Lithuania

10 Inventories

	2003	2002
Raw materials (at cost)	4,854	2,353
Work in progress (at cost)	5,209	11,060
Finished goods (at cost)	60,405	46,750
Finished goods (at net realisable value)	-	1,483
Packaging (at cost)	2,256	1,982
Packaging (at net realisable value)	-	60
Other inventory	4,304	7,659
	77,028	71,347

As at 31 December 2003, all inventories of the Group have been pledged as security for borrowings.

11 Receivables, prepayments and deferred charges

	2003	2002
Trade receivables	43,131	43,757
VAT receivable	4,773	2,153
Current portion of long-term receivables	2,147	2,130
Capital grants receivable	2,162	-
Other receivables	843	6,636
Prepayments and deferred charges	936	1,208
	53,992	55,884

Prepayments, trade and other receivables are stated net of provisions for doubtful debts amounting to LTL 2,855 thousand (2002: LTL 3,156 thousand).

Trade receivables from USA customers amounting to LTL 12,050 thousand (2002: 18,973 thousand) have been pledged as security for borrowings.

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

12 Cash and cash equivalents

	2003	2002
Cash at bank and in hand	5,222	3,347
Short-term bank deposits	-	45
	5,222	3,392

Cash in certain bank accounts of the Parent, and future cash inflows into these accounts up to LTL 2,400 thousand (2002: LTL 2,700 thousand), and all cash held in and future cash inflows into Bankas NORD/LB Lietuva AB have been pledged as security for borrowings.

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

	2003	2002
Cash and bank balances	5,222	3,392
Bank overdrafts	-	(107)
	5,222	3,285

13 Share capital

As at 31 December 2003, the share capital was comprised of 4,746,270 ordinary shares of LTL 10 par value each. All issued shares are fully paid. There were no changes in share capital during the year.

14 Reserves

	2003	2002
Other reserves:		
– non-distributable reserves	65,090	65,090
– indexation reserve	3,593	3,593
– legal reserve	1,122	1,122
	69,805	69,805
Reserve for acquisition of treasury shares	10,000	10,000
	79,805	79,805

Non-distributable reserves

Non-distributable reserves are formed based on decisions of Annual Shareholders' Meetings on appropriation of distributable profits. These reserves can be used only for the purposes approved by the Annual Shareholders' Meeting.

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5 per cent of net result, calculated in accordance with Lithuanian regulatory legislation on accounting, are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be distributed as dividends but exists to cover any future losses.

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

14 Reserves (continued)

Reserve for acquisition of treasury shares

Reserve for acquisition of treasury shares should be maintained as long as the Group continues to buy/sell treasury shares.

15 Treasury shares

	2003		2002	
	Number	**Amount**	**Number**	**Amount**
At beginning of year	249,190	6,224	231,282	5,730
Treasury shares acquired	-	-	32,422	957
Treasury shares disposed of	-	-	(14,514)	(463)
At end of year	249,190	6,224	249,190	6,224

16 Borrowings

	2003	**2002**
Current		
Short-term bank borrowings	39,955	42,339
Current year portion of long-term bank borrowings	4,733	5,744
Revolving credit facility for stock and receivables financing	27	5,923
Bank overdrafts	-	107
Finance lease liabilities	288	341
	45,003	54,454
Non-current		
Long-term bank borrowings	16,861	15,067
Finance lease liabilities	563	1,156
	17,424	16,223
Total borrowings	62,427	70,677

The bank borrowings are secured over certain of the property, plant and equipment (Note 6), inventories (Note 10), cash in certain bank accounts (Note 12), available-for-sale-investments (Note 9) and trade receivables (Note 11). Lease liabilities are effectively secured as the rights to leased asset revert to the lessor in the event of default.

A revolving credit facility of up to USD 10,000 thousand was made available to the Group for the secured financing of its regular dairy trading activities in the USA market and has no scheduled term of expiry. However, in the event that the above-mentioned trading activities were ceased the facility would be repayable upon the request of the lender.

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

16 Borrowings (continued)

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

	2003	2002
Long-term bank borrowings	3.73	3.44
Short-term bank borrowings	4.33	5.54
Revolving credit facility for stock and receivables financing	3.75	5.13
Finance lease liabilities	5.9	7.47
Bank overdrafts	-	8.00

Maturity of non-current borrowings (excluding finance lease liabilities):

	2003	2002
Between 1 and 2 years	4,733	5,813
Between 2 and 5 years	16,402	9,254
Over 5 years	459	-
	21,594	15,067

The Group has the following undrawn committed borrowing facilities:

	2003	2002
Floating rate		
– expiring within one year	27,594	27,190
Fixed rate		
– expiring within one year	33,201	15,950
– expiring beyond one year	-	4,000
	60,795	47,140

The facilities expiring within one year are annual facilities subject to review at various dates during 2004. Weighted average interest rate of these facilities approximated to 4.11 per cent (2002: 5.28 per cent).

The exposure of the borrowings of the Group to interest rate changes and the periods in which the borrowings are repriced are as follows:

	6-12 or less months	1-5 years	Total
At 31 December 2003			
Total borrowings	61,576	-	61,576
At 31 December 2002			
Total borrowings	69,180	-	69,180

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

16 Borrowings (continued)

Finance lease liabilities - minimum lease payments:

	2003	2002
Not later than 1 year	357	441
Later than 1 year and not later than 5 years	569	1,290
	926	1,731
Future finance charges on finance leases	(75)	(234)
Present value of finance lease liabilities	851	1,497

The present value of finance lease liabilities is as follows:

	2003	2002
Not later than 1 year	288	341
Later than 1 year and not later than 5 years	563	1,156
	851	1,497

17 Deferred capital grants

	2003	2002
At beginning of year	-	-
Grants donated	6,767	-
Credited to income statement	(416)	-
At end of year	6,351	-

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

Included within deferred capital grants is LTL 2,162 thousand receivable (Note 11). The amount will be received only after the satisfactory completion of an external review of compliance of the capital expenditure with the SAPARD programme.

18 Trade and other payables

	2003	2002
Trade payables	24,308	23,712
Salaries, social security and taxes	2,039	2,919
Other payables	1,274	2,949
Accrued charges	6,094	3,267
Advances received	183	13
	33,898	32,860

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

19 Acquisition of subsidiary

On 20 August 2003, the Group acquired 100.0 per cent of share capital of Kalora UAB. Kalora UAB contributed revenues of LTL 2,279 thousand and net loss of LTL 4 thousand to the Group for the period from 1 September 2003 to 31 December 2003, and its assets and liabilities at 31 December 2003 were respectively LTL 598 thousand and LTL 362 thousand.

Details of net assets acquired and goodwill are as follows:

Purchase consideration – cash paid	240
Fair value of net assets acquired	(240)
Goodwill	-

The fair value of the net assets acquired approximated to their book value.

The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	139
Property, plant and equipment (Note 6)	109
Inventories	19
Receivables	429
Payables	(456)
Fair value of net assets	240
Goodwill	-
Total purchase consideration	240
Less:	
Cash in subsidiary acquired	(139)
Cash outflow on acquisitions	101

20 Contingent liabilities

As at 31 December 2003, the Group had contingent liabilities amounting to LTL 2,885 thousand (2002: LTL 2,235 thousand) in respect of bank and other guarantees issued by the Group on behalf of farmers and agricultural companies. The Group has given these guarantees in the ordinary course of business and anticipates that no material liabilities will arise.

Included within the above-mentioned guarantees is also a guarantee issued on behalf of one member of the Board of Directors (Note 25).

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

21 Commitments

On 29 January 2002, the Group concluded with its product distributors DP Vonk Diary Products B.V. and Marygold Ltd. the Distribution and Co-Operation Contract regarding the transfer to the Group of their accumulated knowledge and experience in respect of cheese sales in the markets of the United States of America and the European Union member states and take-over of their customers and cheese distribution channels in the above-mentioned markets.

The Group is obliged to pay compensation for the assistance received and for the customers and distribution channels taken-over. The compensation is equal to 50 per cent of gross margin on direct cheese sales to the customers in the USA and the EU, and the aggregate amount of the compensation to be paid will not exceed USD 3.6 million.

In 2003, the above-mentioned compensation amounted to LTL 3,536 thousand (2002: LTL 4,296 thousand).

22 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15 per cent (2002: 15 per cent)

The movement on the deferred income tax account is as follows:

	2003	**2002**
At beginning of year – gross amount before allowance	1,260	279
Tax losses for the year (Note 4)	223	1,294
Tax losses expired or became otherwise non-utilisable	(74)	(313)
Utilisation of tax losses	(85)	-
	1,324	1,260
Allowance for deferred tax assets:		
– charged to income statement	(223)	(1,294)
– charged in prior periods	(1,573)	(279)
– tax losses expired or became otherwise non-utilisable	472	313
At end of year	-	-

The movement in deferred tax assets during the period is as follows:

Deferred tax assets	**Tax losses carry forward**	**Accrual for one-off payments/bonuses**	**Total**
At 1 January 2003	-	-	-
Add back allowance made in prior periods	949	311	1,260
Credited to net profit	97	126	223
Tax losses utilised	(85)	-	(85)
Tax losses expired or became otherwise non-utilisable	(74)	-	(74)
Gross amount	887	437	1,324
Allowance	(887)	(437)	(1,324)
At 31 December 2003	-	-	-

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

22 Deferred income taxes (continued)

As at 31 December 2003, the subsidiaries have unrecognised tax losses carry forward against future taxable income amounting to LTL 5,911 thousand (2002: LTL 6,324 thousand).

Year of expiry	**Amount**
2004	544
2005	358
2007	4,365
2008	644
	5,911

23 Cash generated from operations

Reconciliation of profit/(loss) before tax and minority interest to cash generated from operations:

	2003	**2002**
Net profit/(loss) before tax and minority interest	19,511	(6,665)
Adjustments for:		
– depreciation (Note 6)	14,911	12,680
– amortisation (excluding amortisation of negative goodwill) (Note 7)	53	35
– change in goodwill (Note 7)	(1,064)	(1,027)
– property, plant and equipment written-off (Note 6)	745	397
– loss on sale of property, plant and equipment	1,554	92
– interest expense (Note 3)	3,253	4,046
– interest income, including compensation received (Note 3)	(823)	(274)
– provisions for and write-offs of inventories (Note 2)	1,997	1,755
– accrual for bonuses and one-off payments (Note 2)	2,914	2,072
– unrealised currency exchange gain, net	(713)	(4,509)
– provisions for and write-offs of doubtful and bad receivables (Note 2)	1,646	586
– provisions for and write-offs of loans granted to farmers (Note 2)	2,814	438
– accrual for vacation reserve	1,784	-
– fair value loss on derivative financial instruments (Note 3)	2	-
– amortisation of capital grants received (Note 17)	(416)	-
Changes in working capital		
– receivables and prepayments	(816)	(12,334)
– inventories	(7,659)	1,245
– payables	(4,223)	4,210
Cash generated from operations	35,470	2,747

Non-cash transactions

The principal non-cash transactions were acquisitions of available-for-sale-investments and property, plant and equipment under finance leases.

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

24 Minority interest

	2003	2002
At beginning of year	1,020	2,436
Acquisitions	-	(717)
Share of net result of subsidiaries – net	497	(699)
At end of year	1,517	1,020

25 Related party transactions

(i) Loans to Senior Management and members of the Board of Directors

As at 31 December 2003, non-interest bearing loans granted to Senior Management amounted to LTL 354 thousand (2002: LTL 59 thousand). In 2003, the Parent granted a loan for the amount of LTL 310 thousand to the member of Senior Management. The loans are repayable by deductions from salaries.

As at 31 December 2003, loans granted to the members of the Board, who represents the farmers’ interests on the Board, amounted to LTL 235 thousand (2002: LTL 249 thousand). The annual interest rates range from 1 to 5 per cent. In 2003, the Group granted no new loans. The loans are repayable by 2015 and are secured by certain property, plant and equipment.

(ii) Payments to the members of the Board and Senior Management

In 2003, the remuneration and bonuses to the members of the Board of Directors and Senior Management, who were members of the Board of Directors, amounted to LTL 544 thousand (2002: LTL 1,245 thousand).

In 2003, the remuneration and bonuses to Senior Management, who were not the members of the Board of Directors, amounted to LTL 485 thousand (2002: LTL 503 thousand).

In 2003, the Parent paid fees of LTL 96 thousand (2002: LTL 155 thousand) for consulting services rendered to the members of the Board of Directors.

(iii) Sale of tangible fixed assets to the Senior Management and their relatives

In 2003, the Parent sold certain property, plant and equipment items for the total consideration of LTL 202 thousand to the member of Senior Management and to the relative of the member of Senior Management.

(iv) Contingencies

As at 31 December 2003, the Group had a contingent liability amounting to LTL 250 thousand (2002: LTL 250 thousand) in respect to bank guarantee issued by the Group on behalf of one member of the Board of Directors. The loan is repayable in 2007.

25 Subsequent events

In January 2004, the Parent signed an overdraft agreement with Vereins-und Westbank AG Vilnius branch for the amount of LTL 5,000 thousand. All cash held in and future cash inflows into Vereins-und Westbank AG Vilnius branch bank accounts and cash inflows arising from certain trade agreements have been pledged as security for overdraft.

In January 2004, the Parent sold 1.96 per cent of share capital of Panevėžio Pienas AB for the total consideration of LTL 724 thousand.