ROKIŠKIO SŪRIS AB

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

CONTENTS

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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 and its subsidiaries (hereinafter collectively "the Group") as at 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements 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 2004 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
22 April 2005

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

Consolidated income statement

	Notes	Year ended 31 December 2004	2003
Sales	4	451,393	369,623
Cost of sales		(363,466)	(292,347)
Gross profit		87,927	77,276
Selling and marketing expenses	5	(30,421)	(26,067)
General and administrative expenses	6	(20,231)	(27,752)
Loss on disposal of property, plant and equipment		(341)	(1,554)
Operating profit		36,934	21,903
Finance costs, net	7	(3,109)	(2,392)
Profit before tax		33,825	19,511
Income tax	8	(6,179)	(4,108)
Net profit		27,730	15,403
Attributable to:			
Equity holders of the Company		27,779	14,906
Minority interest		(49)	497
		27,730	15,403
Earnings per share (LTL per share)	9	6.21	3.31

The notes on pages 8 to 27 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 4 to 27 were approved by the Board and signed on behalf of the Board by the Director on 22 April 2005.

Antanas Trumpa
Director

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

Consolidated balance sheet

	Notes	As at 31 December 2004	2003
ASSETS			
Non-current assets			
Property, plant and equipment	10	139,509	140,115
Intangible assets (including negative goodwill)	11	670	(158)
Long-term receivables	12	14,349	17,285
Available-for-sale investments	13	15	56
		154,543	157,298
Current assets			
Inventories	14	54,940	77,028
Receivables, prepayments and deferred charges	15	60,258	53,992
Available-for-sale investments	13	5,880	11,249
Cash and cash equivalents	16	4,312	5,222
		125,390	147,491
Total assets		279,933	304,789
EQUITY			
Attributable to the equity holders of the Company			
Share capital	17	47,462	47,462
Share premium		41,473	41,473
Reserve for acquisition of treasury shares		10,000	10,000
Treasury shares	18	(16,224)	(6,224)
Other reserves		69,805	69,805
Retained earnings		41,844	34,077
		194,360	196,593
Minority interest		1,468	1,517
Total equity		195,828	198,110
LIABILITIES			
Non-current liabilities			
Borrowings	19	9,403	17,424
Deferred capital grants	20	10,690	6,351
		20,093	23,775
Current liabilities			
Income tax liabilities		5,126	4,003
Borrowings	19	28,457	45,003
Trade and other payables	21	30,429	33,898
		64,012	82,904
Total liabilities		84,105	106,679
Total equity and liabilities		279,933	304,789

The notes on pages 8 to 27 are an integral part of these consolidated financial statements.

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

Consolidated statement of changes in equity

		Attributable to the equity holders of the Company								
	Notes	**Share capital**	**Share premium**	**Reserve for acquisition of treasury shares**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
Balance at 1 January 2003		47,462	41,473	10,000	(6,224)	69,805	19,171	181,687	1,020	182,707
Net profit		-	-	-	-	-	14,906	14,906	497	15,403
Balance at 31 December 2003		47,462	41,473	10,000	(6,224)	69,805	34,077	196,593	1,517	198,110
Acquisition of treasury shares	18	-	-	-	(10,000)	-	-	(10,000)	-	(10,000)
Dividends relating to 2003		-	-	-	-	-	(20,012)	(20,012)	-	(20,012)
Net profit		-	-	-	-	-	27,779	27,779	(49)	27,730
Balance at 31 December 2004		47,462	41,473	10,000	(16,224)	69,805	41,844	194,360	1,468	195,828

The notes on pages 8 to 27 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

	Notes	Year ended 31 December 2004	2003
Cash flows from operating activities			
Cash generated from operations	24	70,322	35,470
Interest paid	7	(2,580)	(3,468)
Income tax paid		(1,300)	-
Net cash from operating activities		66,442	32,002
Cash flows from investing activities			
Acquisition of subsidiary		-	(101)
Purchase of property, plant and equipment	10	(21,545)	(27,740)
Purchase of intangible assets	11	(156)	(357)
Purchase of available-for-sale investments		(2,315)	-
Loans granted to farmers and employees		(246)	(798)
Other loans granted		(5,286)	-
Proceeds from sale of property, plant and equipment		737	618
Grants and subsidies received		6,254	5,201
Other loan repayments received		56	-
Loan repayments from farmers and employees		2,603	315
Interest received		286	227
Net cash used in investing activities		(19,612)	(22,635)
Cash flows from financing activities			
Dividends paid		(19,973)	-
Acquisition of treasury shares	18	(10,000)	-
Proceeds from available-for-sale investments		6,823	-
Proceeds from borrowings		298,835	36,932
Repayments of borrowings		(323,138)	(43,716)
Finance lease principal payments		(287)	(646)
Net cash used in financing activities		(47,740)	(7,430)
Net (decrease)/increase in cash and cash equivalents		(910)	1,937
Cash and cash equivalents at beginning of the year		5,222	3,285
Cash and cash equivalents at end of the year		4,312	5,222

The notes on pages 8 to 27 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Rokiškio Sūris AB (hereinafter "the Company") is a public listed company incorporated in Rokiškis, 160 km North–West from Vilnius, the capital of Lithuania.

The 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 Company and its three branches (2003: three branches) and four subsidiaries (2003: four subsidiaries). The branches and subsidiaries included in the Group's consolidated financial statements are indicated below:

	Operating as at 31 December	
Branches	**2004**	**2003**
Ukmergės Pieninė	Yes	Yes
Utenos Pienas	Yes	Yes
Eišiškių Pieninė	Yes	Yes

	Group's share (%) as at 31 December	
Subsidiaries	**2004**	**2003**
Švenčionių Pieninė AB	90.60	90.60
Varėnos Pieninė AB	49.94	49.94
Ignalinos Pieninė AB	49.91	49.91
Kalora UAB	100.00	100.00

The subsidiaries Varėnos Pieninė AB and Ignalinos Pieninė AB are consolidated as the Company has the power to govern the financial and operating policies of these subsidiaries so as to obtain benefits from their activities.

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

The Group's main line of business is the production of ferment cheese and a wide range of milk products. As at 31 December 2004, the Group employed 1,998 people (2003: 2,348 people).

2. Accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared based on historical cost convention modified by fair value revaluations of financial assets.

The preparation of financial statements in conformity with IFRS 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.

Adoption of new accounting policies as a result of newly introduced IFRS with effect from 1 January 2005, will have no significant impact on the Group's consolidated figures as at 31 December 2004 presented in these financial statements.

2.2 Group accounting

Subsidiaries

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 *Intangible assets* 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.

2.3 Foreign currency translation

(a) Reporting currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the reporting currency"). Amounts in these consolidated financial statements are presented in the litas, which is the reporting currency of the Group.

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.

(b) Transactions and balances

Foreign currency transactions are translated into the reporting 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.

2.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write-off the cost of each asset, 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 PP&E	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 property, plant and equipment 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.

2.5 Intangible assets

(a) 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.

(b) Other intangible assets

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent amortisation. Intangible assets are amortised on the straight-line basis over the useful life of 1 to 5 years.

2.6 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.

2.7 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. Realised and unrealized gains and losses arising from changes in the fair value of the available-for-sale investments are included in the income statement in the period in which they arise.

2.8 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 indirect 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.

2.9 Trade and other amounts receivable

Amounts receivable are initially carried at fair value and subsequently at amortised cost using the effective yield method, less impairment of these receivables. The impairment of receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The impairment amount is the difference between the carrying amount and the present value of the estimated future cash flows discounted using the effective interest rate. The impairment is recognised in the income statement. Bad debts are written off during the year in which they are identified as irrecoverable.

2.10 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 in borrowings in current liabilities on the balance sheet.

2.11 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 Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributed 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.

2.12 Reserves

Other reserves

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. These reserves can be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve

Legal reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5 per cent of net result are required until the reserve reaches 10 per cent of share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

Reserve for acquisition of treasury shares

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares.

2.13 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 over the period of the borrowings using the effective yield method.

2.14 Income tax

Profit is taxable at a 15 per cent (2003: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

Expenses of income tax are calculated and accumulated 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.

2.15 Deferred income tax

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.

2.16 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.

2.17 Employee benefits

(a) Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.18 Revenue recognition

Revenue is carried at invoiced amount of goods and services, net of value added tax and discounts directly related to sales, and elimination of intercompany results within the Group. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

2.18 Revenue recognition (continued)

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

2.19 Dividends

For the purpose of the Group‘s financial statements, dividends are accounted for in the period when they are approved by the Group‘s shareholders.

2.20 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Group and held as treasury shares.

2.21 Segment reporting

The Group's single business segment is production of cheese and milk products, therefore, information on key business segment is not presented. Geographical segment is a distinguished business component, which produces products within a particular economic environment that is subject to risks and returns that are different from those of components operating in other geographical economic environment.

2.22 Grants and subsidies

Grants are recognised at fair value where there is sufficient evidence that the grant will be received and the Group will comply with all conditions attached.

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

Export subsidies paid by the Government for each exported tone of products meeting certain requirements are included in sales revenue.

Grants received to finance acquisition of property, plant and equipment are included in non-current deferred income in the balance sheet. For the purpose of the income statement, they are recognised as income on a straight-line basis over the useful life of property, plant and equipment concerned.

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

2.23 Comparatives

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

3. Financial risk management

Financial risk factors

The Group's activities are exposed 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 on the financial performance of the Group.

Foreign exchange risk
The Group operates internationally, however, its exposure to foreign exchange risk is set at minimum level, since its sales outside Lithuania are performed in the euros. The exchange rate of the euro and the litas is fixed.

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
Prudent liquidity risk management allows to maintain sufficient cash and availability of funding under committed credit facilities.

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 tabular amounts are in LTL '000 unless otherwise stated)

4. Segment reporting

Primary reporting format – business segments
The Group's single business segment is production of cheese and 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**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Lithuania	195,507	187,916	279,933	304,789	21,701	28,312
Italy	74,482	299		-		-
Netherlands	40,077	36,003		-		-
Russia	38,089	24,103		-		-
Germany	36,155	12,034		-		-
USA	21,482	59,130		-		-
Great Britain	10,549	3,938		-		-
Poland	8,634	18,380		-		-
France	6,448	2,742		-		-
Canada	4,350	3,519		-		-
Estonia	3,132	2,660		-		-
Denmark	1,204	11,137		-		-
Latvia	1,710	4,145		-		-
Japan	-	1,817		-		-
Other	9,574	1,800		-		-
	451,393	369,623	279,933	304,789	21,701	28,312

Pursuant to European Commission Regulation *On definition of compensation for milk and milk product export costs*, with effect from 1 May 2004 the Company is entitled to receive subsidies for cheese exported to the countries specified in the Regulation. Export subsidies are paid for each tone of exported products that meet certain requirements attached to the Regulation.

In 2004, the Company accounted for export subsidies amounting to LTL 9,835 thousand. As at 31 December 2004, the Lithuanian Government has paid receivable export subsidies of LTL 1,345 thousand. Export subsidies receivable are recorded under amounts receivable, prepayments and deferred charges (Note 15).

5. Selling and marketing expenses

	2004	**2003**
Marketing services	8,263	7,645
Payroll expenses	6,111	5,095
Transportation services	5,365	5,740
Product image creation and advertising expenses	2,814	1,662
Depreciation of property, plant and equipment	1,364	1,354
Repair and maintenance	1,469	396
Warehousing services	527	1,111
Other expenses	4,508	3,064
	30,421	26,067

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

6. General and administrative expenses

	2004	2003
Payroll expenses	7,332	9,861
Accrued bonuses and one-off payments	2,076	2,914
Taxes (other than income tax)	2,732	2,000
Impairment and write-offs of loans granted to farmers	908	2,814
Depreciation of property, plant and equipment	868	818
Telecommunication and IT maintenance expenses	852	930
Consulting expenses	768	300
Repair and maintenance	658	406
Insurance expenses	439	127
Charity, support	331	338
Write-offs of property, plant and equipment	324	745
Bank charges	315	410
Business trips	204	755
Fines	191	13
Membership fees	159	117
Inventory write-offs	120	990
Training of employees	111	45
Amortisation of negative goodwill	(1,064)	(1,064)
Impairment and write-offs of amounts receivable	(233)	1,646
Other expenses	3,140	3,587
	20,231	27,752

7. Finance costs – net

	2004	2003
Interest expense:		
– bank borrowings	(2,538)	(3,165)
– finance leases	(42)	(88)
	(2,580)	(3,253)
Loss on disposal of available-for-sale investments	(1,873)	-
Loss from derivative financial instruments	-	(2)
Interest income	420	227
Compensation for interest expense (capital grants)	527	596
Profit on disposal of available-for-sale investments	558	-
Fair value gains on available-for-sale investments	413	-
Net foreign exchange transaction (loss)/gain	(574)	40
	(3,109)	(2,392)

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

8. Income tax expense

	2004	2003
Current tax	6,095	4,003
Adjustment of income tax for prior year	-	105
Deferred tax (Note 23)	-	-
	6,095	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:

	2004	2003
Profit before tax	33,825	19,511
Tax calculated at a tax rate of 15 per cent (2003: 15 per cent)	5,074	2,927
Tax non-deductible expenses	1,703	1,479
Unrecognised tax losses of subsidiaries (Note 23)	200	126
Income not subject to tax	(879)	(428)
Utilisation of previously unrecognised tax losses	(3)	(101)
Adjustment of previous year income tax	-	105
Tax charge	6,095	4,108

9. Earnings per share

	2004	2003
Net profit attributable to shareholders	27,779	14,906
Weighted average number of ordinary shares in issue (thousands)	4,475	4,497
Basic earnings per share (LTL per share)	6.21	3.31

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

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

10. Property, plant and equipment

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2003					
Cost	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	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 current 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	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
Year ended 31 December 2004					
Opening net book amount	39,542	64,119	26,898	9,556	140,115
Additions	529	11,244	6,294	3,478	21,545
Disposals	(2,883)	(335)	(122)	(4)	(3,344)
Write-offs	(1)	(133)	(180)	-	(314)
Transfers from CIP	1,326	6,110	3,274	(10,710)	-
Reclassification	42	273	(315)	-	-
Reclassification to current assets	(84)	-	(94)	-	(178)
Depreciation charge	(1,037)	(10,393)	(6,885)	-	(18,315)
Closing net book amount	37,434	70,855	28,870	2,320	139,509
At 31 December 2004					
Cost	47,488	128,316	63,607	2,320	241,731
Accumulated depreciation	(10,054)	(57,431)	(34,737)	-	(102,222)
Net book amount	37,434	70,855	28,870	2,320	139,509

Leased assets, where the Group is a lessee under finance lease, comprise certain equipment:

	2004	2003
Cost - capitalised finance leases	1,400	1,400
Accumulated depreciation	(560)	(311)
Net book amount	840	1,089

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

10. Property, plant and equipment (continued)

As at 31 December 2004, certain property, plant and equipment with a carrying value of LTL 82,337 thousand (31 December 2003: LTL 81,741 thousand) have been pledged as security for bank borrowings.

Depreciation expenses of property, plant and equipment are included in selling and marketing expenses, general and administrative expenses and cost of sales in the income statement, and in work in progress and finished goods in the balance sheet.

11. Intangible assets (including negative goodwill)

	Negative goodwill	Software & other intangible assets	Total
At 1 January 2003			
Cost	(4,846)	694	(4,152)
Accumulated 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
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)
Accumulated amortisation	2,907	(235)	2,672
Net book amount	(1,939)	1,781	(158)
Year ended 31 December 2004			
Opening net book amount	(1,939)	1,781	(158)
Additions	-	156	156
Write-offs	-	(10)	(10)
Amortisation charge	1,064	(382)	682
Closing net book amount	(875)	1,545	670
At 31 December 2004			
Cost	(4,846)	2,041	(2,805)
Accumulated amortisation	3,971	(496)	3,475
Net book amount	(875)	1,545	670

Amortisation expenses of software and other intangible assets are included in general and administrative expenses in the income statement.

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

12. Long-term receivables

	2004	2003
Long-term loans to farmers	13,378	16,213
Long-term loans to employees	971	1,072
	14,349	17,285

Long-term receivables are stated net of impairment of doubtful debts amounting to LTL 1,716 thousand (2003: LTL 4,239 thousand). The current portion of long-term receivables is presented in Note 15.

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.

Loans granted to farmers include non-interest bearing loans totalling LTL 1,883 thousand (2003: LTL 2,029 thousand) granted to the farmers of bankrupted dairies, which have no scheduled terms of repayment.

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

In the opinion of the Company's management, the carrying amounts of long-term receivables approximate their fair values.

13. Available-for-sale investments

	2004	2003
At beginning of year	11,305	8,051
Additions	12,855	3,254
Disposals	(18,678)	-
Fair value gains	413	-
At end of year	5,895	11,305
Non-current	15	56
Current	5,880	11,249
	5,895	11,305

In 2004, the Company acquired 405,778 shares of Žemaitijos Pienas AB for the total consideration of LTL 12,840 thousand in exchange of previously owned 4,705,443 shares of Panevėžio Pienas AB with the total carrying amount of LTL 10,540 thousand.

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

13. Available-for-sale investments (continued)

The details of available-for-sale investments held as at 31 December 2004 were as follows:

	Number of shares in issue	Nominal value of share capital in issue	% interest held	Country of incorporation
Žemaitijos Pienas AB	3,700,000	37,000	4.66	Lithuania
Žemaitijos Pieno Investicija AB	3,526,699	10,580	11.63	Lithuania
Pieno Žvaigždės AB	54,030,451	54,030	Less than 1	Lithuania
Žaliasis Taškas UAB	74	1,110	1.35	Lithuania

14. Inventories

	2004	2003
Raw materials (at cost)	5,876	4,854
Work in progress (at cost)	9,711	5,209
Finished goods (at cost)	34,485	60,405
Other inventory	4,868	6,560
	54,940	77,028

As at 31 December 2004, all inventories of the Group have been pledged as security for borrowings.

15. Receivables, prepayments and deferred charges

	2004	2003
Trade receivables	37,188	45,986
VAT receivable	2,172	4,773
Current portion of long-term receivables	2,894	2,147
Export subsidies receivable (Note 4)	8,490	-
Receivables on disposal of property, plant and equipment	2,268	-
Capital grants receivable	-	2,162
Loans granted to related parties (Note 26)	4,920	-
Other amounts receivable	971	843
Prepayments and deferred charges	1,800	936
Impairment of trade and other amounts receivable	(445)	(2,855)
	60,258	53,992

16. Cash and cash equivalents

	2004	2003
Cash at bank and in hand	4,312	5,222
	4,312	5,222

Cash in certain bank accounts of the Company, and future cash inflows into these accounts up to LTL 12,400 thousand (2003: 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.

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

17. Share capital

As at 31 December 2004, the share capital was comprised of 4,746,270 ordinary registered shares with par value of LTL 10 each. All the shares are fully paid. There were no changes in share capital during the year.

18. Treasury shares

	2004		2003	
	Number	**Amount**	**Number**	**Amount**
At beginning of year	249,190	6,224	249,190	6,224
Additions	142,857	10,000	-	-
At end of year	392,047	16,224	249,190	6,224

19. Borrowings

	2004	**2003**
Current		
Short-term bank borrowings	21,180	39,955
Current portion of long-term bank borrowings	6,965	4,733
Revolving credit facility for stock and receivables financing	-	27
Finance lease liabilities	312	288
	28,457	45,003
Non-current		
Long-term bank borrowings	9,151	16,861
Finance lease liabilities	252	563
	9,403	17,424
Total borrowings	37,860	62,427

The bank borrowings are secured over certain of the property, plant and equipment (Note 10), inventories (Note 14), cash in certain bank accounts (Note 16), and trade receivables (Note 21). Lease liabilities are effectively secured as the rights to leased asset revert to the lessor in the event of default.

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

	2004	**2003**
Long-term bank borrowings	3.5	3.73
Short-term bank borrowings	3.6	4.33
Revolving credit facility for stock and receivables financing	3.65	3.75
Finance lease liabilities	4.33	5.9
Bank overdrafts	3.5	-

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

19. Borrowings (continued)

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

	2004	2003
Between 1 and 2 years	6,965	4,733
Between 2 and 5 years	9,151	16,402
Over 5 years	-	459
	16,116	21,594

The Group has the following undrawn committed borrowing facilities:

	2004	2003
Floating rate		
– expiring within one year	22,269	27,594
Fixed rate		
– expiring within one year	50,052	33,201
	72,321	60,795

The facilities expiring within one year are short-term loans subject to review at various dates during 2005. Weighted average interest rate of these facilities approximated to 3.6 per cent (2003: 4.11 per cent).

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

	6-12 or less months	1-5 years	Total
At 31 December 2004			
Total borrowings	28,526	9,334	37,861
At 31 December 2003			
Total borrowings	61,576	-	61,576

Finance lease liabilities - minimum lease payments:

	2004	2003
Not later than 1 year	337	357
Later than 1 year and not later than 5 years	257	569
	594	926
Future finance charges on finance leases	(30)	(75)
Present value of finance lease liabilities	564	851

The present value of finance lease liabilities is as follows:

Not later than 1 year	312	288
Later than 1 year and not later than 5 years	252	563
	564	851

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

20. Deferred capital grants

	2004	2003
At beginning of year	6,351	-
Capital grants received	5,727	6,767
Credited to income statement	(1,388)	(416)
At end of year	10,690	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 Company has no obligation to repay or otherwise refund the capital grants received unless it breaches the contractual provisions contained in the agreements concluded with the grantors.

21. Trade payables and other amounts payable

	2004	2003
Trade payables	25,118	24,308
Salaries, social security and taxes	2,209	2,039
Other payables	100	1,274
Accrued charges	3,002	6,094
Advances received	-	183
	30,429	33,898

22. Contingent liabilities

As at 31 December 2004, the Group had contingent liabilities amounting to LTL 4,079 thousand (2003: LTL 2,885 thousand) in respect of guarantees issued by the Group on behalf of farmers and agricultural companies for banks and other organisations. The Group has given these guarantees in the ordinary course of business and anticipates that no material liabilities will arise.

23. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15 per cent (2003: 15 per cent)

The movement on deferred income tax account was as follows:

	2004	2003
At beginning of year	-	-
Charged (credited) to income statement:		
– Unrecognised tax losses of subsidiaries	200	126
– Utilisation of previously unrecognised tax losses	(3)	(101)
	197	122
Tax losses expired or became otherwise non-utilisable	(82)	(74)
Impairment of deferred tax assets	(115)	(48)
At end of year	-	-

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

23. Deferred income tax (continued)

As at 31 December 2004, the gross amount of unrecognised tax losses carry forward against future taxable income of the subsidiaries amounted to LTL 6,677 thousand (2003: LTL 5,911 thousand). Tax losses may be carried forward as follows:

Year of expiry	Amount
2005	358
2006	4,365
2007	622
2008	1,332
	6,677

24. Cash generated from operations

Reconciliation of profit before tax and minority interest to cash generated from operations:

	2004	2003
Net profit before tax and minority interest	33,825	19,511
Adjustments for:		
– depreciation (Note 10)	18,315	14,911
– amortisation (Note 11)	(682)	(1,011)
– write-off of pp&e and intangible assets (Notes 10 and 11)	324	745
– loss on sale of property, plant and equipment	341	1,554
– interest expense (Note 7)	2,580	3,253
– interest income, including compensation received (Note 7)	(947)	(823)
– write-offs of inventories	3,181	1,997
– accrual for bonuses and one-off payments (Note 6)	2,076	2,914
– unrealised currency exchange gain, net	23	(713)
– impairment and write-offs of doubtful and bad receivables (Note 6)	(233)	1,646
– impairment and write-offs of loans granted to farmers (Note 6)	908	2,814
– accrual for vacation reserve	(1,826)	1,784
– fair value loss on derivative financial instruments (Note 7)	-	2
– loss on disposal of available-for-sale investments (Note 7)	1,873	-
– profit on disposal of available-for-sale investments (Note 7)	(558)	-
– fair value gains (net) on available-for-sale investments (Note 7)	(413)	-
– export subsidies received	(8,490)	-
– amortisation of capital grants received (Note 20)	(1,388)	(416)
Changes in working capital		
– receivables and prepayments	9,756	(816)
– inventories	19,085	(7,659)
– payables	(7,428)	(4,223)
Cash generated from operations	70,322	35,470

24. Cash generated from operations (continued)

Non-monetary transactions

The principal non-monetary transactions represent acquisition of Žemaitijos Pienas AB shares in exchange for Panevėžio Pienas AB shares (Note 13).

25. Related party transactions

(i) Loans to Senior Management, members of the Board, and other related parties

As at 31 December 2004, non-interest bearing loans granted to Senior Management amounted to LTL 426 thousand (2003: LTL 354 thousand).

In 2004, the Company granted a loan of LTL 4,786 thousand to the related party Pieno Pramonės Investicijų Valdymas UAB. According to the loan agreement, the loan is subject to annual interest rate of EURLIBOR + 1.8 per cent margin and it has to be repaid by 30 June 2005.

As at 31 December 2004, the outstanding balance of this loan amounted to LTL 4,786 thousand. Interest charges on loan amounted to LTL 134 thousand.

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

In 2004, salaries and bonuses to the members of the Board and Senior Management, who were members of the Board, amounted to LTL 2,933 thousand (2003: LTL 544 thousand).

In 2004, salaries and bonuses to Senior Management, who were not members of the Board, amounted to LTL 727 thousand (2003: LTL 485 thousand).

26. Subsequent events

In 2005, the Company sold the remaining part of shares of Žemaitijos Pienas AB for the total consideration of LTL 453 thousand.

In 2005, upon the expiry of the repayment term of loans, the Company extended all loan agreements.