

ROKIŠKIO SŪRIS AB
CONSOLIDATED FINANCIAL STATEMENTS
AND PERFORMANCE REPORT
31 DECEMBER 2005

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
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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 ("the Company") and together with its subsidiaries ("the Group") as at 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements set out on pages 4-36 and the performance report set out on pages 37-41 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the consolidated financial statements.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial statement presentation. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Group. 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 Group as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
4. In addition, in our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.
5. We did not identify material inconsistencies in the performance report with the audited consolidated financial statements

On behalf of PricewaterhouseCoopers UAB


Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
11 April 2006


Ona Armalienė
Auditor's Certificate No.000008

ROKIŠKIO SŪRIS AB**CONSOLIDATED FINANCIAL STATEMENTS, 31 DECEMBER 2005**

Company code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania

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

Consolidated income statement

		Year ended 31 December	
	Notes	2005	2004
Sales	5	473,118	451,813
Cost of sales		(399,707)	(363,466)
Gross profit		73,411	88,347
Selling and marketing expenses	6	(25,920)	(30,421)
General and administrative expenses	7	(17,612)	(20,231)
Other gains/(losses) – net	8	(2,269)	(1,243)
Operating profit		27,610	36,452
Finance costs	10	(2,020)	(2,627)
Profit before tax		25,590	33,825
Income tax	11	(4,590)	(6,095)
Net profit		21,000	27,730
Attributable to:			
Equity holders of the Company		20,952	27,779
Minority interest		48	(49)
		21,000	27,730
Diluted and basics earnings per share (LTL per share)	12	4.81	6.21

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 4 to 36 have been approved for issue by the Board of Directors as at 11 April 2006 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
Director



Antanas Kavaliauskas
Chief Financial Officer



ROKIŠKIO SŪRIS AB**CONSOLIDATED FINANCIAL STATEMENTS, 31 DECEMBER 2005**

Company code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania

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

Consolidated balance sheet

		As at 31 December	
	Notes	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	13	128,901	139,509
Intangible assets	14	1,135	670
Other receivables	15	13,277	14,364
		<u>143,313</u>	<u>154,543</u>
Current assets			
Inventories	16	71,115	54,940
Trade and other receivables	17	81,840	60,258
Financial assets at fair value through profit or loss	18	-	5,880
Cash and cash equivalents	19	3,184	4,312
		<u>156,139</u>	<u>125,390</u>
Total assets		<u>299,452</u>	<u>279,933</u>
EQUITY			
Attributable to the equity holders of the Company			
Share capital	20	47,462	47,462
Share premium		41,473	41,473
Reserve for acquisition of treasury shares		10,000	10,000
Treasury shares	22	(16,224)	(16,224)
Other reserves	23	69,805	69,805
Retained earnings		41,900	41,844
		<u>194,416</u>	<u>194,360</u>
Minority interest		-	1,468
Total equity		<u>194,416</u>	<u>195,828</u>
LIABILITIES			
Non-current liabilities			
Borrowings	24	4,253	9,403
Deferred income	25	8,730	10,690
		<u>12,983</u>	<u>20,093</u>
Current liabilities			
Income tax liabilities		217	5,126
Borrowings	24	50,701	28,457
Trade and other payables	26	41,135	30,429
		<u>92,053</u>	<u>64,012</u>
Total liabilities		<u>105,036</u>	<u>84,105</u>
Total equity and liabilities		<u>299,452</u>	<u>279,933</u>

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.

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

Consolidated statement of changes in equity

	Notes	Attributable to the equity holders of the Company							Minority interest	Total
		Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 1 January 2004		47,462	41,473	10,000	(6,224)	69,805	34,077	196,593	1,517	198,110
Acquisition of treasury shares	22	-	-	-	(10,000)	-	-	(10,000)	-	(10,000)
Dividends relating to 2003	21	-	-	-	-	-	(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
Change in accounting policy	2.1	-	-	-	-	-	875	875	-	875
Dividends relating to 2004	21	-	-	-	-	-	(21,771)	(21,771)	-	(21,771)
Net profit		-	-	-	-	-	20,952	20,952	48	21,000
Minority of subsidiaries disposed		-	-	-	-	-	-	-	(1,516)	(1,516)
Balance at 31 December 2005		47,462	41,473	10,000	(16,224)	69,805	41,900	194,416	-	194,416

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.

ROKIŠKIO SŪRIS AB**CONSOLIDATED FINANCIAL STATEMENTS, 31 DECEMBER 2005**

Company code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania

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

Consolidated cash flow statement

		Year ended 31 December	
	Notes	2005	2004
Cash flows from operating activities			
Cash generated from operations	30	14,953	70,322
Interest paid		(1,872)	(2,580)
Income tax paid		(2,755)	(1,300)
Net cash generated from operating activities		10,326	66,442
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed	29	45	-
Purchase of property, plant and equipment	13	(12,366)	(21,545)
Purchase of intangible assets	14	(34)	(156)
Purchase of investments		(3)	(2,315)
Proceeds from investments		5,246	6,823
Loans granted to farmers and employees		(4,337)	(246)
Other loans granted		(9,961)	(5,286)
Proceeds from sale of property, plant and equipment		1,855	737
Government Grants received		-	6,254
Other loan repayments received		8,656	56
Loan repayments from farmers and employees		2,189	2,603
Interest received		433	286
Net cash used in investing activities		(8,277)	(12,789)
Cash flows from financing activities			
Dividends paid		(20,047)	(19,973)
Acquisition of treasury shares	22	-	(10,000)
Proceeds from borrowings		25,068	296,680
Repayments of borrowings		(14,253)	(323,138)
Finance lease principal payments		(301)	(287)
Net cash used in financing activities		(9,533)	(56,718)
Net decrease in cash and cash equivalents		(7,484)	(3,065)
Cash and cash equivalents at beginning of the year	19	2,157	5,222
Cash and cash equivalents at end of the year		(5,327)	2,157

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

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 (2004: three branches and four subsidiaries). The branches and subsidiaries included in the Group's consolidated financial statements are indicated below:

Branches	Operating as at 31 December	
	2005	2004
Ukmergės Pieninė	Yes	Yes
Utenos Pienas	Yes	Yes
Eišiškių Pieninė	Yes	Yes

Subsidiaries	Group's share of as at 31 December	
	2005	2004
Švenčionių Pieninė AB	-	90.60
Varėnos Pieninė AB	-	49.94
Ignalinos Pieninė AB	-	49.91
Kalra UAB	-	100.00

In June, July, and October 2005, the Parent sold its subsidiaries Ignalinos Pieninė AB, Varėnos Pieninė AB, and Kalra UAB, respectively and in May 2005 closed its subsidiary Švenčionių Pieninė AB.

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 2005, the Group employed 1,891 people (2004: 1,998 people).

2. Accounting policies**2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, excluding certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Group is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

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

2.1 Basis of preparation (continued)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of consolidated 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 (Note 4).

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 40 (revised 2003) Investment Property
IFRS 2 (issued 2004) Share-based Payments
IFRS 3 (issued 2004) Business Combinations
IFRS 4 (issued 2004) Insurance Contracts
IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations
IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments

The adoption of the above new or revised standards and interpretations had no material effect on the Group's policies or was not relevant to the Group's operations, except as follows:

- IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- The adoption of IFRS 3 and IAS 38 (revised 2004) resulted in a change in the accounting policy for negative goodwill.

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2.1 Basis of preparation (continued)

The carrying amount of negative goodwill amounting to LTL 875 thousand as at 31 December 2004 that arose from a business combination for which the agreement date was before 31 March 2004 had been derecognised as at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings. The following balance sheet items were affected:

Items	Previously reported as at	Change	Restated balance as at
	31 December 2004		1 January 2005
Intangible assets	670	875	1,545
Retained earnings	41,844	875	42,719

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

Implementation of new accounting policies as a result of new accounting standards and interpretations, which came into effect as from 1 January 2006, will not have a significant effect on the figures of the Group as at 31 December 2005, disclosed in these financial statements.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods which the Group has not early adopted as follows:

(a) IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not participate in any multi-employer plans. The Group is assessing the impact of changing the accounting policy adopted for recognition of actuarial gains and losses. The Group will apply this amendment from annual periods beginning 1 January 2006.

(b) IAS 21 (Amendment), Net Investment in Foreign Operation (effective from 1 January 2006)

This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. The management assessed the impact of the amendment and believes that it will not affect the Group's financial statements. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

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

2.1 Basis of preparation (continued)

(c) IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the financial statements as at 31 December 2005 and 2004.

(d) IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit and loss.

(e) IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

(f) IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)

These amendments are not relevant to the Group's operations, as the Group does not carry out exploration for and evaluation of mineral resources.

(g) IFRS 6, Exploration for and Evaluation of Mineral Resource (effective from 1 January 2006)

IFRS 6 is not relevant to the Group's operations.

(h) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is assessing the impact of IFRS 7 and the amendment to IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

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

2.1 Basis of preparation (continued)

(i) IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006)

IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006) IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Implementation of IFRIC 4 is not expected to change the accounting for any of the Group's current arrangements.

(j) IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds, therefore IFRIC 5 is not relevant to the Group's operations.

(k) IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).

IFRIC 6 is not relevant to the Group's operations.

(l) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007)

The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. This new interpretation is not relevant to the Group's financial statements. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

(m) IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

The issue addressed in the Interpretation is whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. It not applicable to the Group since there are no share-base payments. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

(n) IFRIC 9, Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006).

The Interpretation applies to all embedded derivatives under IAS 39 'Financial Instruments: Recognition and Measurement' and clarifies certain aspects of their treatment. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

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

2.2 Group accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Litas (LTL), which is the Company's (and each of the Group entity's) functional and presentation currency.

Litas is pegged to the Euro at an exchange rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

2.4 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost 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 property, plant and equipment	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.6).

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.

Construction in progress is transferred to appropriate groups of property, plant and equipment when it is completed and available 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

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

2.6 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

ROKIŠKIO SŪRIS AB
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Company code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania

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2.7 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. The management's policy is not to voluntarily designate financial assets as at fair value through profit and loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'Other (losses)/gains – net', in the period in which they arise.

The fair value of quoted investments are based on current bid prices.

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.

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

2.9 Trade and other amounts receivable

Amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of amounts receivables is established 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 amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'general and administrative expenses'. 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 and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

2.11 Share capital

(a) Ordinary shares

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.

(b) Treasury shares

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

(a) 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 is included into other reserves. 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.

(b) Reserve for acquisition of treasury shares

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the nominal value of treasury shares acquired.

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2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.14 Deferred income tax

Profit is taxable at a 15 per cent (2004: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

According to the newly adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 4 per cent for 2006 and at a rate of 3 per cent for 2007 should be paid on taxable income earned during 2006 and 2007 respectively.

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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Leases – where the Group is the lessee

(a) Finance lease

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 lease's commencement at the lower of the fair value of the leased property and the present value of the minimum 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 long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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2.15 Leases – where the Group is the lessee (continued)

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.16 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.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

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2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales 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.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.19 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.

2.20 Segment reporting

The Group's single business segment is production of cheese and milk products, therefore, information on key business segment is not presented. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.21 Government grants and subsidies

Government 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.

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

Government grants received to finance acquisition of property, plant and equipment are included in non-current deferred income in the balance sheet. They are recognised as income on a straight-line basis over the useful life of related property, plant and equipment.

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2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. Financial risk management

(a) 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.

Market risk: 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 has no significant interest-bearing assets. The Group's policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

(b) Fair value estimation

The nominal value less impairment provision of trade receivables and the nominal value of accounts payable is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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4. Critical accounting estimates and judgments

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Estimates of useful lives of property, plant and equipment

The Group has old buildings and machinery, where the useful lives are estimated based on the projected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

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5. 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	
	2005	2004	2005	2004	2005	2004
Lithuania	169,927	195,927	299,452	279,933	12,400	21,701
Europe Union countries	203,294	182,391	-	-	-	-
CIS countries	64,593	38,089	-	-	-	-
Other (including USA and Japan)	35,304	35,406	-	-	-	-
	473,118	451,813	299,452	279,933	12,400	21,701

Sales are allocated based on the country in which the customers are located.

Analysis of revenue by category:

	2005	2004
Sales of goods	447,890	434,031
Export subsidies	14,734	9,835
Sales of materials	5,715	5,148
Services rendered	3,672	1,312
Interest income	526	420
Other	581	1,067
	473,118	451,813

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. Export subsidies receivable are recorded under amounts trade and other receivables (Note 17).

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6. Selling and marketing expenses

	2005	2004
Marketing services	8,055	8,263
Payroll expenses	5,636	6,111
Transportation services	5,256	5,365
Product image creation and advertising expenses	2,106	2,814
Repair and maintenance	1,814	1,469
Depreciation of property, plant and equipment	1,311	1,364
Warehousing services	20	527
Other expenses	1,722	4,508
	25,920	30,421

7. General and administrative expenses

	2005	2004
Payroll expenses	7,472	7,332
Taxes (other than income tax)	1,459	2,732
Impairment and write-offs of loans granted to farmers	1,010	908
Consulting expenses	1,041	768
Depreciation of property, plant and equipment	815	868
Repair and maintenance	605	658
Paid and accrued bonuses	518	2,076
Telecommunication and IT maintenance expenses	452	852
Insurance expenses	442	439
Write-offs of property, plant and equipment	357	324
Bank charges	233	315
Business trips	175	204
Fines	166	191
Training of employees	160	111
Membership fees	132	159
Charity, support	123	331
Reversal of impairment of inventory and inventory write-offs	(58)	120
Amortisation of negative goodwill	-	(1,064)
Reversal of impairment of amounts receivable	(6)	(233)
Other expenses	2,516	3,140
	17,612	20,231

8. Other gains/(losses) - net

	2005	2004
Loss on disposal of subsidiaries (Note 29)	(868)	-
Loss on disposal of property, plant and equipment (Note 30)	(764)	(341)
Loss on disposal of investments	(637)	(1,873)
Profit on disposal of investments	-	558
Fair value gains on financial assets at fair value through profit or loss (Note 18)	-	413
	(2,269)	(1,243)

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9. Expenses by nature

	2005	2004
Raw materials and consumables used	295,340	251,011
Payroll expenses	39,336	45,240
Transportation services	27,012	29,929
Depreciation and amortisation	17,728	18,184
Marketing services	8,055	8,263
Repair and maintenance	6,772	5,084
Cost of materials sold	5,632	4,895
Taxes (other than income tax)	1,627	2,868
Consulting expenses	1,041	768
Telecommunication and IT maintenance expenses	574	869
Amortisation of negative goodwill	-	(1,064)
Other	40,122	48,071
Total cost of sales, selling and marketing expenses and general and administrative expenses	443,239	414,118

Payroll expenses include wages and salaries of LTL 29,635 thousand (2004: LTL 32,863 thousand), social security contribution costs of LTL 9,183 thousand (2004: LTL 10,301 thousand) and bonuses of LTL 518 thousand (2004: LTL 2,076 thousand).

10. Finance costs

	2005	2004
Interest expense:		
- bank borrowings	(1,847)	(2,011)
- finance leases	(25)	(42)
	(1,872)	(2,053)
Net foreign exchange transaction loss	(148)	(574)
	(2,020)	(2,627)

11. Income tax

	2005	2004
Current tax	4,590	6,095
Deferred tax (Note 28)	-	-
	4,590	6,095

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11. Income tax (continued)

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

	2005	2004
Profit before tax	25,590	33,825
Tax calculated at a tax rate of 15 per cent (2004: 15 per cent)	3,838	5,074
Tax non-deductible expenses	1,372	1,703
Unrecognised tax losses of subsidiaries (Note 28)	115	200
Income not subject to tax	(710)	(879)
Charity expenses deductible twice for tax purposes	(25)	-
Other	-	(3)
Tax charge	4,590	6,095

The tax authorities have carried out full-scope tax audits at the Company for the year 2001. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

12. Earnings per share

	2005	2004
Net profit attributable to shareholders	20,952	27,779
Weighted average number of ordinary shares in issue (thousands)	4,354	4,475
Basic earnings per share (LTL per share)	4.81	6.21

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

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13. Property, plant and equipment

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2004					
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	70,885	28,870	2,320	139,509

Year ended 31 December 2005

Opening net book amount	37,434	70,885	28,870	2,320	139,509
Additions	919	3,012	3,700	4,735	12,366
Disposals	(1,739)	(686)	(194)	-	(2,619)
Disposal of subsidiaries	(74)	(3)	(64)	(3)	(144)
Write-offs	-	(320)	(37)	-	(357)
Transfers from CIP	1,483	1,587	232	(3,302)	-
Depreciation charge	(1,047)	(11,358)	(7,449)	-	(19,854)
Closing net book amount	36,976	63,117	25,058	3,750	128,901

At 31 December 2005

Cost	47,354	130,827	65,455	3,750	247,386
Accumulated depreciation	(10,378)	(67,710)	(40,397)	-	(118,485)
Net book amount	36,976	63,117	25,058	3,750	128,901

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

	2005	2004
Cost - capitalised finance leases	1,400	1,400
Accumulated depreciation	(622)	(467)
Net book amount	778	933

As at 31 December 2005, certain property, plant and equipment with a carrying value of LTL 68,565 thousand (31 December 2004: LTL 82,337 thousand) have been pledged as security for bank borrowings.

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13. Property, plant and equipment (continued)

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.

No borrowing costs were capitalised during the years ended 31 December 2005 and 31 December 2004.

Operating lease rentals amounting to LTL 85 thousand (2004: LTL 53 thousand) relating to the lease of property, plant and equipment are included in the income statement.

14. Intangible assets

	Negative goodwill	Software	Total
At 1 January 2004			
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
Year ended 31 December 2005			
Opening net book amount	(875)	1,545	670
Change in accounting policy	875	-	875
Additions	-	34	34
Amortisation charge	-	(444)	(444)
Closing net book amount	-	1,135	1,135
At 31 December 2005			
Cost	-	2,075	2,075
Accumulated amortisation	-	(940)	(940)
Net book amount	-	1,135	1,135

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

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15. Other receivables

	2005	2004
Long-term loans to farmers	12,221	13,378
Long-term loans to employees	1,041	971
Other	15	15
	<u>13,277</u>	<u>14,364</u>

Long-term receivables are stated net of impairment of doubtful debts amounting to LTL 1,856 thousand (2004: LTL 1,716 thousand). The current portion of long-term receivables is presented in Note 17.

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. Effective interest rate was 8.35 per cent (2004: 8.66 per cent).

Long-term loans to employees were granted with repayment terms ranging from 5 to 25 years. The loans are interest free. Effective interest rate was 10.31 per cent (2004: 12.01 per cent).

Loans to employees and farmers include a certain amount of loans granted to Directors and Board member of the Group (Note 31).

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

16. Inventories

	2005	2004
Raw materials	5,750	5,876
Work in progress	10,722	9,711
Finished goods	50,748	34,485
Other inventory	3,895	4,868
	<u>71,115</u>	<u>54,940</u>

As at 31 December 2005, inventories with cost of LTL 58,043 thousand (as at 31 December 2004: all inventories) have been pledged as security for bank borrowings.

17. Trade and other receivables

	2005	2004
Trade receivables	58,358	37,188
VAT receivable	1,741	2,172
Current portion of long-term receivables	3,608	2,894
Export subsidies receivable (Note 5)	7,405	8,490
Receivables on disposal of property, plant and equipment	28	2,268
Other amounts receivable	10,163	5,891
Prepayments and deferred charges	537	1,800
Impairment of trade and other amounts receivable	-	(445)
	<u>81,840</u>	<u>60,258</u>

As at 31 December 2005, certain trade accounts receivable of LTL 8,441 thousand (as at 31 December 2004: LTL 408 thousand) have been pledged as security for bank borrowings.

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17. Trade and other receivables (continued)

Current portion of long-term receivables and other amounts receivable include a certain amount of loans and other receivables from related parties (Note 31).

18. Financial assets at fair value through profit or loss

	2005	2004
At beginning of year	5,880	11,290
Additions	3	12,855
Disposals	(5,883)	(18,678)
Fair value gains	-	413
At end of year	-	5,880

The carrying amount of the above financial assets are classified as designated as at fair value through profit or loss on initial recognition.

In 2005, the Company disposed 172,279 shares of Žemaitijos Pienas AB and 410,330 shares of Žemaitijos Pieno Investicija AB.

19. Cash and cash equivalents

	2005	2004
Cash at bank and in hand	3,184	4,312
	3,184	4,312

Cash in certain bank accounts and future cash inflows into these accounts up to LTL 12,500 thousand (2004: LTL 12,400 thousand) have been pledged as security for bank borrowings.

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

	2005	2004
Cash and bank balances	3,184	4,312
Bank overdrafts (Note 23)	(8,511)	(2,155)
	(5,327)	2,157

20. Share capital

As at 31 December 2005, 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.

21. Dividends

The dividends per share, excluding treasury shares, declared in respect of 2004 and 2003 and paid in 2005 and 2004, were LTL 5 and LTL 4.6 or equivalent amounting to a total dividend of LTL 21,771 thousand and 20,012 thousand, respectively. There were no dividends proposed or declared in respect of 2005 as at the date of approval of these financial statements.

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22. Treasury shares

	2005		2004	
	Number	Amount	Number	Amount
At beginning of year	392,047	16,224	249,190	6,224
Additions	-	-	142,857	10,000
At end of year	392,047	16,224	392,047	16,224

23. Other reserves

	2005	2004
Distributable reserve	65,091	65,091
Non-distributable reserve	4,714	4,714
	69,805	69,805

Non-distributable reserves of LTL 3,593 thousand can only be used for share capital increase and non-distributable reserves of LTL 1,121 (legal reserve) can only be used for offsetting future operating losses, if any.

24. Borrowings

	2005	2004
Current		
Short-term bank borrowings	36,973	19,025
Bank overdrafts	8,511	2,155
Current portion of long-term bank borrowings	4,954	6,965
Finance lease liabilities	263	312
	50,701	28,457
Non-current		
Long-term bank borrowings	4,253	9,151
Finance lease liabilities	-	252
	4,253	9,403
Total borrowings	54,954	37,860

The bank borrowings are secured over certain of the property, plant and equipment (Note 13), inventories (Note 16), trade receivables (Note 17) and cash in certain bank accounts (Note 19).

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:

	2005	2004
Long-term bank borrowings	3.72	3.5
Short-term bank borrowings	3.06	3.6
Revolving credit facility for stock and receivables financing	-	3.65
Finance lease liabilities	4.33	4.33
Bank overdrafts	3.76	3.5

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24. Borrowings (continued)

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

	2005	2004
Between 1 and 2 years	1,963	4,954
Between 2 and 5 years	2,290	4,197
	<u>4,253</u>	<u>9,151</u>

The carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

	2005	2004
Euro	44,495	34,356
Litas	10,196	818
US dollars	-	2,122
	<u>54,691</u>	<u>37,296</u>

Fair value of borrowings approximates to their carrying values.

The facilities expiring within one year are short-term loans subject to review at various dates during 2006. Weighted average interest rate of these facilities approximated to 3.75 per cent (2004: 3.6 per cent).

The exposure of the borrowings (excluding finance lease liabilities) 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 2005			
Total borrowings	<u>54,691</u>	<u>-</u>	<u>54,691</u>
At 31 December 2004			
Total borrowings	<u>37,296</u>	<u>-</u>	<u>37,296</u>

Finance lease liabilities - minimum lease payments:

	2005	2004
Not later than 1 year	267	337
Later than 1 year and not later than 5 years	-	257
	<u>267</u>	<u>594</u>
Future finance charges on finance leases	(4)	(30)
	<u>263</u>	<u>564</u>

The present value of finance lease liabilities is as follows:

Not later than 1 year	263	312
Later than 1 year and not later than 5 years	-	252
	<u>263</u>	<u>564</u>

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25. Deferred income

	2005	2004
Government grants at beginning of year	10,690	6,351
Government grants received	-	5,727
Credited to income statement	(1,960)	(1,388)
At end of year	8,730	10,690

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.

26. Trade payables and other amounts payable

	2005	2004
Trade payables	38,245	25,118
Salaries, social security and taxes	1,584	2,209
Other payables	343	100
Accrued charges	963	3,002
	41,135	30,429

27. Contingent liabilities and commitments*Contingent liabilities*

As at 31 December 2005, the Group had contingent liabilities amounting to LTL 5,891 thousand (2004: LTL 4,079 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.

Capital commitments

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements was LTL 1,490 thousand (31 December 2004: LTL 1,410 thousand)

Operating lease commitments – where the Group is the lessee

The Group and the Company leases passenger cars and premises under operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
Not later than 1 year	583	47
Later than 1 year but not later than 5 years	251	30
	834	77

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28. 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 (2004: 15 per cent)

The movement on deferred income tax account was as follows:

	2005	2004
- Unrecognised tax losses of subsidiaries	115	200
- Utilisation of previously unrecognised tax losses	-	(3)
	115	197
Tax losses of subsidiaries disposed	(115)	-
Tax losses expired or became otherwise non-utilisable	-	(82)
At end of year	-	115

No deferred tax asset of LTL115 thousand was recognised as at 31 December 2004 due to the uncertainty of its recoverability.

29. Disposal of subsidiaries

On 29 April 2005 the Group closed its 90.6 per cent subsidiary Švenčionių Pieninė AB. On 1 June 2005 the Group disposed 49.91 per cent of Ignalinos Pieninė AB shares. On 1 July 2005 the Group disposed 49.94 per cent of Varėnos Pieninė AB shares. On 5 October 2005 the Group disposed 100.0 per cent of Kalora UAB shares.

Details of net assets disposed are as follows:

	Subsidiaries disposed			
	Švenčionių Pieninė AB	Varėnos Pieninė AB	Ignalinos Pieninė AB	Kalora UAB
Cash received on disposal	-	509	201	240
Share of net assets disposed	-	(1,209)	(300)	(309)
Loss from disposal of subsidiaries	-	(700)	(99)	(69)
				(868)

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29. Disposal of subsidiaries (continued)

An analysis of the results of sold subsidiaries for the ended 2005 is as follows:

	Subsidiaries disposed				Total
	Švenčionių Pieninė AB	Varenos Pieninė AB	Ignalinos Pieninė AB	Kalora UAB	
Revenue	2,898	144	60	348	3,450
Expenses	(44)	(253)	(391)	(438)	(1,126)
Profit/(loss) before tax	2,854	(109)	(331)	(90)	2,324
Income tax	-	-	-	-	-
Profit/(loss) for the year from sold subsidiaries	2,854	(109)	(331)	(90)	2,324
Profit/(loss) for the year attributable to minority interest	(268)	54	166	-	(48)
Profit/(loss) for the year attributable to equity holders of the Company	2,586	(55)	(165)	(90)	2,276

Disposed consideration settled in cash:

Cash received	-	509	201	240	950
Cash and cash equivalents in subsidiary disposed	-	(287)	(600)	(18)	(905)
Cash inflow from disposal	-	222	(399)	222	45

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30. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2005	2004
Net profit before tax	25,590	33,825
Adjustments for:		
- depreciation (Note 13)	19,854	18,315
- amortisation (Note 14)	444	(682)
- write-off of property, plant and equipment and intangible assets (Notes 13 and 14)	357	324
- loss on disposal of property, plant and equipment (Note 8)	784	341
- interest expense (Note 10)	1,872	2,053
- interest income (Note 5)	(526)	(420)
- write-offs of inventories	11	3,181
- accrual for bonuses and one-off payments	-	2,076
- unrealised currency exchange gain, net	224	23
- impairment and write-offs of doubtful and bad receivables	9	(233)
- impairment and write-offs of loans granted to farmers (Note 7)	1,010	908
- accrual for vacation reserve	-	(1,826)
- loss on disposal of subsidiaries (Note 8)	868	-
- loss on disposal of investments (Note 8)	637	1,873
- profit on disposal of investments (Note 8)	-	(558)
- fair value gains on investments (Note 8)	-	(413)
- amortisation of government grants received (Note 25)	(1,960)	(1,388)
Changes in working capital		
- receivables and prepayments	(20,253)	1,266
- inventories	(16,185)	19,085
- payables	2,237	(7,428)
Cash generated from operations	14,953	70,322

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2005	2004
Net book amount (Note 13)	2,619	3,344
Loss from disposal of property, plant and equipment (Note 8)	(764)	(341)
Proceeds from disposal property, plant and equipment	1,855	3,003

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31. Related party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company's Managing Director), which together own 47.87 per cent of the Company's share capital. Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 52.13 per cent of the shares are widely held.

Pieno Pramonės Investicijų Valdymas UAB, the members of the Board and Senior Management and their close family members are treated as related parties.

Certain cooperative societies, engaged in the production of milk, are treated as related parties of the Company through close family relationships with members of the Senior Management and because certain of the Company's employees have significant influence over day-to-day activities of these societies.

(i) The following transactions were carried out with related parties:

	2005	2004
Purchase of milk from other related parties	18,184	-
Sales of utility services to other related parties	484	-
Interest charges on credit facility	227	134

(ii) Year end balances arising from transactions with related parties:

	2005	2004
Non-interest bearing loans granted to Senior Management (and their families)	1,808	512
Non-interest bearing loans granted to other related parties	3,500	-
Credit facility granted to Pieno Pramonės Investicijų Valdymas UAB	6,358	4,786
Non-interest bearing loans received from other related parties	2,800	-
Trade payables to other related parties	2,862	-

(iii) Compensation of key management

	2005	2004
Salaries and bonuses	3,388	3,660

Key management includes 12 (2004: 12) members of the Board and Senior Management.



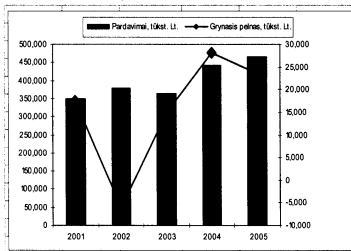
Rokiškio Sūris AB Performance Report for 2005

Performance results

The largest dairying company in Lithuania – Rokiškio Sūris AB and its subsidiaries (hereinafter "the Group") – improved efficiency of its operations and successfully achieved its target results for 2005. The Group's revenue amounted to LTL 473.118 million and consolidated audited net profit was LTL 21.0 million. Although the Company's net profit in 2005 decreased by 24.3 per cent as compared to 2004 (LTL 27.73 million), its sales revenue was higher by 4.7 per cent as compared to 2004 (LTL 451.393 million).

In 2005, the Group's efficiency of operations was improved and general and administrative expenses of the Group were reduced by 12.95 per cent, selling and marketing expenses were reduced by 14.8 per cent.

In 2005, the total payroll expenses amounted to LTL 39,336 thousand, which is less by LTL 5,904 thousand as compared to 2004. The average gross salary in 2005 was LTL 1,325 (including part-time managers of 462 milk buying-up stations) as compared to LTL 1,391 in 2004. In 2005, the average number of employees fell down to 1,882 as compared to 1,893 employees in the Group.



Changes in financial position

In October 2005, Rokiškio Sūris AB applied for financial support from the EU amounting to LTL 3.45 million to finance its business plan "Rokiškio Sūris AB Whey Collection and Processing".

The financial support obtained will enable the Company to solve environmental issues and strengthen its competitiveness in the EU market, as well as ensure full processing of whey through actual implementation of waste less production technology, and produce new products.

During the reporting financial year the Group acquired property, plant and equipment and intangible assets for LTL 12,400 thousand (2004: LTL 21,701 thousand, 2003: LTL 28,312 thousand).

In 2005, subsidies paid in to Rokiškio Sūris AB for products sold amounted to LTL 15,819 thousand.

As at 31 December 2005, the Group had short-term loans of LTL 45,485 thousand, and long-term loans of LTL 9,206 thousand. Total borrowings of the Group amounted to LTL 54,691 thousand at year end.

The Company's share value

Diagram of changes in Rokiškio Sūris AB share value over 2005.



In 2005, the highest share value of Rokiškio Sūris AB was LTL 82.50. At the year-end, the Company's capitalisation was LTL 355.97 million.

Rokiškio Sūris AB Group structure

At the end of 2005, the Rokiškio Sūris AB Group consisted of the parent company Rokiškio Sūris AB and its three branches: Utenos Pienas, Ukmergės Pieninė, and Eišiškių Pieninė.

Structural changes in the Group over the financial year 2005:

As at 1 January 2005, Rokiškio Sūris AB holdings and number of shares in its subsidiary undertakings were as follows:

On 1 June 2005, Rokiškio Sūris AB sold all its 1,498,508 ordinary registered shares held in Varėnos Pieninė AB and all its 387,008 ordinary registered shares held in Ignalinos Pieninė AB. On 5 October 2005, Rokiškio Sūris AB sold all its 12 ordinary registered shares held in Kalora UAB. On 29 April 2005, Rokiškio Sūris AB lost its block of shares held in Švenčionių Pieninė AB as a result of bankruptcy of this company.

As at 31 December 2005, Rokiškio Sūris AB had no subsidiary undertakings.

On 14 June 2005, Rokiškio Sūris AB sold all its 410,330 shares held in Žemaitijos Pieno Investicija AB, which accounted for 11.63 per cent of authorised share capital of Žemaitijos Pieno Investicija AB.

As at 31 December 2005, Rokiškio Sūris AB had acquired 392,047 units of its own shares. They account for 8.26 per cent of Rokiškio Sūris AB authorised share capital. Rokiškio Sūris AB did not acquire own shares in 2005.

Changes in management of Rokiškio Sūris AB Group

During the General Shareholders Meeting of Rokiškio Sūris AB held on 29 April 2005, all Board members were recalled and a new Board was elected. The newly elected Board members of Rokiškio Sūris AB were as follows: Mr. Nerijus Dagilis, Mr. Dalius Trumpa, Mr. Antanas Kavaliauskas, Mr. Andrius Trumpa, and Mr. Linas Strėlis. Mr. Nerijus Dagilis was elected as a Chairman of the Board.

Raw milk supplies

In 2005, 1,433.4 thousand tonnes of base fat milk were bought up in Lithuania, which is more by 4.4 per cent as compared to 2004. In 2005, the average price of base fat milk in Lithuania increased by 16 per cent as compared to 2004 and amounted to LTL 566 per tonne.

The Group bought up 324,454 tonnes of base fat milk directly from milk producers for an average price of LTL 539 per tonne. Base fat milk bought up subject to no discounts accounted for 95.6 per cent of total base fat milk bought up in 2005.

Milk bought up from other suppliers amounted to 150,186 tonnes for an average price of LTL 680 per tonne. Rokiškio Sūris AB Group companies bought up in total 474,640 tonnes of base fat milk or more by 7.5 per cent as compared to 2004. In 2005, an average price of milk bought up was LTL 584 per tonne, which is higher by LTL 114 per tonne as compared to 2004.

Production, introduction of productive capacity, mastering of new products

Rokiškio Sūris AB

During 2005, in Rokiškis Sūris AB produced 24,454 tonnes of fermented cheese (more by 22.5 per cent than in 2004), 6,390 tonnes of milk sugar (lactose), and 42,601 tonnes of 9 per cent whey protein concentrate. In 2005, for the purpose of reducing production costs and sustain a high level of production, production technology for Gojos and Cagliata cheese was improved.

A modern system to ensure safe food management and quality of food was introduced in the manufacturing process, which is certified at a global level and enables to produce safe and quality food products that meet the requirements of customers.

The Company continuously seeks to reduce adverse effect on environment and ensures a minimal level for utilization of hazardous substances and generation of waste.

Fermented cheese produced in Rokiškis is well appreciated among the consumers. Fermented cheese with Rokiškio sūris trademark was awarded with AgroBalt 2005 medal during the 14th international trade fair of agriculture, food products and packaging.

Branch Ukmergės Pieninė

Ukmergės Pieninė is one of the most modern dairying company of curd and curd-cheese all over Lithuania. Along with rapid development of dairying companies and intense competition, the branch Ukmergės Pieninė specializes in production of curd, curd-cheese and coated curd-cheese bars and expands the range of products offered.

The main objective of the branch is to find an optimal production solution that would satisfy the needs of the customers and increase the company's profit at a maximum level.

A modern production department of curd and curd-cheese was set up. The focus is given to implementation of state-of-the-art technology and development of new products, which enables the company to achieve good results and maintain a high level of production, as well as ensure safe production of products.

In 2005, 4,055 tonnes of products were produced (more by 20.6 per cent as compared to 2004), whereof 2,898 tonnes of curd, 501 tonnes of curd-cheese, 451 tonnes of coated curd-cheese bars, and 205 tonnes of fruit juice drinks.

The branch Ukmergės Plieninė often participates with its products at trade fairs and has a number of awards. The company produces a well-appreciated curd-cheese among the customers *Proginis varškės sūris*, which was awarded with gold medal and diploma by the Lithuanian Industrial Confederation during the election of a 'Lithuanian Product of a Year 2005'.

Branch Utenos Pienas

In 2005, the branch Utenos Pienas produced 1,667 tonnes of skimmed milk powder, 31 tonnes of buttermilk powder, 3,609 tonnes of whey protein concentrate powder, 3,725 tonnes of butter-fat mixture, 42,478 tonnes of fresh milk products, and 10,278 tonnes of cream were produced and exported.

New products are produced, which include yoghurts with orange and carrots, milk drink of the taste of peach, 20 per cent fat source cream, and fat mixture BIFIDO.

Sales and marketing

Rokiškio Sūris AB group has sustained its position as the largest and major dairying company in Lithuania. In 2005 its sales of goods increased by 3 per cent and reached LTL 448 million.

2/3 of sales represent exported production – primarily fermented cheese. Since long ago, the Group has been engaged in mass production of fermented cheese and is one of the largest and well-known producers of fermented cheese in the region of Central and Eastern Europe. When Lithuania joined the EU and no quotas were left, most of these products were supplied to the EU markets (mainly to Italy). Another direction for export of fermented cheese is the Russian market, where presently the subsidies are received for exported production, which enables to compete successfully with cheaper local production. And beyond any doubt, cheese with trademark of Rokiškio sūris is well-known and well-buyable in local market.

Presently, the Group has withdrawn from the US market, where prices are no longer attractive as they were several years ago due to the US dollar exchange rate.

In addition, in export markets the Group sells ordinary milk products, such as butter, milk powder, and additional products that are used in the process of production of cheese, i.e. whey protein concentrate and lactose.

The Group remains the major representative of the Lithuanian dairy industry as well as the major exporter of dairy products – in 2005 it exported over 20 thousand tonnes of fermented cheese, 10 thousand tonnes of cream, 4 thousand tonnes of lactose, 3 thousand tonnes of whey protein concentrate, and 1.3 thousand tonnes of butter and milk powder each.

In 2006 it is expected that sales of the Group will further increase and will exceed the level of LTL 500 million.

Another important area of focus of the Group is sales of fresh dairy products in Lithuania. During the recent years, the Group has become one of the leaders in the home market and today it shares the leading positions together with Pieno Žvaigždės. Over the last several years, the Group's objectives in home market have changed radically: it is attempted to have a higher added value, promotion of sales is carried out through development of trademarks, introduction of new products, and innovations offered for the market. The Group's marketing function strengthens with each year.

The Group's objectives in respect of home market are to focus on the package of the core strongest products and retain a market share of not less than 25 per cent. These objectives have been successfully implemented so far.

The Group will further seek to maintain close relations with its customers, especially with the retail trade networks, the percentage of which in the sales gradually increases and accounts for almost 80 percent of aggregate internal turnover. The Group will further seek to strengthen the reliance of its customers through building a single logistic system, which will enable the customer to get the production of all companies from one location and only with one document. This will encourage the customers to co-operate with the company as a convenient partner.

Today the Group has already formed the core of its trademarks: economic – VISIEMS, mass – ŽALOJI KARVUTĖ, premium – ROKIŠKIO, PROF, dessert – &JOY, functional – BiFiDo, low-fat – VALGYK LENGVAI. However, there is still left much to do in order to produce a clean, healthy, and ecological product.

A special focus is placed on ensuring quality maintenance of the products, which helps to successfully implement the marketing strategy

Presently, the Group is preparing for other important projects related to quality improvement and standard compliance with the EU requirements with the help of financial support and structural funds of the EU.

Operation plans and forecasts

For the year 2006, the Group has targets to earn consolidated net profit of LTL 30.5 million, i.e. more by 30 per cent as compared to 2005, and achieve turnover of LTL 502 million, i.e. higher by 8 per cent as compared to 2005.


The Company plans to achieve the following key financial indicators:

Indicator	2006
Net profit margin, %	6
Turnover growth, %	9*

* - provided there are no strategic mergers or acquisitions.

In respect of export markets, the Group will focus on sales of products with higher added value and consistent approach to product delivery to the end users. Such strategy has already proved itself as increasing our sales and profitability.

On behalf of the Board of Directors



Antanas Kavaliauskas