**AB Vilkyškių Pieninė**

# Financial statements for 2005

# Contents

# Company details

## AB Vilkyškių Pieninė

| | |
|---|---|
| Telephone: | +370 441 55330 |
| Telex: | +370 441 55232 |
| Company code: | 277160980 |
| Registration date: | 18 May 1993 |

### Board of directors

Gintaras Bertašius (Chairman)
Sigitas Trijonis
Rimantas Jancevičius
Vaidotas Juškys

### Management

Gintaras Bertašius, General Director

### Auditor

KPMG Baltics, UAB

### Banks

AB SEB Vilniaus Bankas
AB Bankas Snoras
AB Bankas Hansabankas
AB Šiaulių Bankas

# Annual report

The Board of Directors and the Management have today discussed and authorized for issue the annual accounts and the annual report and have signed them on behalf of the company.

The annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate.

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

Vilkyškiai, 6 March 2006

**Management:**

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Gintaras Bertašius
General Director

**Board:**

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Gintaras Bertašius

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Sigitas Trijonis

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Rimantas Jancevičius

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Vaidotas Juškys

# Report of the auditor to the shareholders of AB Vilkyškių Pieninė

We have audited the accompanying balance sheet of AB Vilkyškių Pieninė as at 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended.

These financial statements are the responsibility of the Company's management. Our responsibility is, based on our audit, to express an opinion on these financial statements, as set out on pages 4 to 28.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2005, and of the results of its operations and cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Klaipėda, 6 March 2006
KPMG Baltics, UAB

| | |
|---|---|
| Leif Rene Hansen<br>Danish State Authorised<br>Public Accountant | Rokas Kasperavičius<br>Lithuanian Certified<br>Auditor |

# Income statement

**For the year ended 31 December 2005**

| Thousand Litas | Note | 2005 | 2004 |
|---|---|---|---|
| **Revenue** | 1 | 91 709 | 75 102 |
| Cost of sales | | -80 173 | -63 488 |
| **Gross profit** | | 11 536 | 11 614 |
| Other operating income, net | 2 | 27 | 44 |
| Sales costs | | -1 422 | -1 612 |
| Administrative costs | 3 | -4 345 | -4 182 |
| **Operating profit before financing costs** | | 5 796 | 5 864 |
| Financial income | | 20 | 161 |
| Financial expenses | | -619 | -814 |
| **Net financing costs** | 4 | -599 | -653 |
| **Profit before tax** | | 5 197 | 5 211 |
| Income tax expense | 5 | -914 | -640 |
| **Profit for the year** | | 4 283 | 4 571 |
| Basic earnings per share (in Litas) | 6 | 34,30 | 52,37 |
| Diluted earnings per share (in Litas) | | 34,30 | 52,37 |

Notes, presented on pages 8 – 28, are an integral part of the financial statements.

# Balance sheet

**As at 31 December 2005**

| Thousand Litas | Note | 2005 | 2004 |
|---|---|---|---|
| **Assets** | | | |
| Tangible non-current assets | 7 | 21 487 | 19 892 |
| Intangible assets | 8 | 196 | 283 |
| Other investments | 9 | 350 | |
| Long-term receivables | | 112 | 1 151 |
| **Total non-current assets** | | 22 145 | 21 326 |
| | | | |
| Inventories | 10 | 8 427 | 6 160 |
| Receivable amounts | 11 | 6 768 | 3 624 |
| Cash and cash equivalents | 12 | 1 041 | 105 |
| **Total current assets** | | 16 236 | 9 889 |
| **Total assets** | | 38 381 | 31 215 |
| | | | |
| **Equity** | | | |
| Share capital | | 9 353 | 9 353 |
| Reserves | | 705 | 466 |
| Retained result | | 3 786 | 919 |
| **Total equity** | 13 | 13 844 | 10 738 |
| | | | |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 14 | 13 210 | 11 731 |
| Deferred tax liabilities | 15 | 1 304 | 1 474 |
| **Total non-current liabilities** | | 14 514 | 13 205 |
| | | | |
| Interest-bearing loans and borrowings | 14 | 2 575 | 536 |
| Payable income tax | 5 | 1 037 | 237 |
| Trade and other payable amounts | 16 | 6 411 | 6 499 |
| **Total current liabilities** | | 10 023 | 7 272 |
| **Total liabilities** | | 24 537 | 20 477 |
| **Total equity and liabilities** | | 38 381 | 31 215 |

Notes, presented on pages 8 – 28, are an integral part of the financial statements.

# Cash flow statement

**For the year ended 31 December 2005**

| Thousand Litas | Note | 2005 | 2004 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 5 197 | 5 211 |
| Adjustments: | | | |
| Depreciation | 7 | 3 623 | 3 181 |
| Amortisation | 8 | 159 | 141 |
| Result on disposal of tangible non-current assets | 2 | -71 | -27 |
| Interest expenses, net | 4 | 914 | 640 |
| **Cash flows from ordinary activities before changes in the working capital** | | 9 822 | 9 146 |
| Change in inventories | | -2 267 | -1 413 |
| Change in receivable amounts | | -2 105 | 1 303 |
| Change in trade and other payable amounts | | -691 | -2 067 |
| **Cash flows from operating activities** | | 4 759 | 6 969 |
| Paid / received interest, net | | -563 | -895 |
| Income tax paid | | -285 | -6 |
| **Net cash flow from operating activities** | | 3 911 | 6 068 |
| **Cash flows from investing activities** | | | |
| Acquisition of tangible non-current assets | 7 | -3 662 | -3 667 |
| Acquisition of intangible assets | 8 | -72 | -175 |
| Disposal proceeds of tangible non-current assets | | 117 | 57 |
| Investments in subsidiary undertaking | | -350 | - |
| **Net cash flow from investing activities** | | -3 967 | -3 785 |
| **Cash flows from financing activities** | | | |
| Loans received | | 3 156 | 1 714 |
| Repayment of borrowings | | -230 | -4 118 |
| Payment of finance lease liabilities | | -757 | -497 |
| Dividends paid | | -1 177 | - |
| **Net cash from financing activities** | | 992 | -2 901 |
| Increase in cash and cash equivalents | | 936 | -618 |
| Cash and cash equivalents at1 January | | 105 | 727 |
| **Cash and cash equivalents at 31 December** | | 1 041 | 105 |

Notes, presented on pages 8 – 28, are an integral part of the financial statements.

# Statement on movements of equity

| Thousand Litas | Note | Share capital | Own shares | Compulsory reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| At 1 January 2004 | | 9 353 | | 466 | -3 652 | 6 167 |
| Net profit for 2004 | | | | | 4 571 | 4 571 |
| At 31 December 2004 | | 9 353 | 0 | 466 | 919 | 10 738 |
| At 1 January 2005 | | 9 353 | 0 | 466 | 919 | 10 738 |
| Net profit for 2005 | | | | | 4 283 | 4 283 |
| Profit allocation | | | | 239 | -239 | |
| Dividends | | | | | -1 177 | -1 177 |
| At 31 December 2005 | 13 | 9 353 | 0 | 705 | 3 786 | 13 844 |

Notes, presented on pages 8 – 28, are an integral part of the financial statements.

# Notes to financial statements

## Significant accounting policies

AB Vilkyškių Pieninė (hereinafter "the Company") is a company domiciled in Lithuania. The Company is engaged in purchase, processing of milk and sales of milk products.

The major shareholder of the Company is Gintaras Bertašius, holding 93,19 % of the share capital. Ordinary shares of the Company are listed in Vilnius Stock Exchange.

As at 31 December 2005 the Company had 446 employees (2004 : 423 employees).

The financial statements were approved by the Board of Directors as at 6 March 2006.

### *(a) Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the interpretations adopted by the European Union. These are the first financial statements where IFRS 1 have been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 21.

### *(b) Basis of preparation*

The financial statements are presented in Litas, the Lithuanian national currency which is the functional currency of the Company, and are prepared on the historical cost basis maintaining the accounting records in accordance with Lithuanian accounting legislation and regulations.

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

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

The accounting policies set out below have been applied consistently to all periods presented in IFRS 1.7 in these financial statements and in preparing an opening IFRS balance sheet at IFRS 1.36A 1 January 2004 for the purposes of the transition to IFRS.

# Notes to financial statements

## Significant accounting policies (continued)

### *(c) Derivative financial instruments*

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

### *(d) Other financial instruments*

Loans granted and receivable amounts are initially recognised at fair value plus transaction costs directly related to acquisition of financial assets. After initial recognition loans and receivables are valued at amortised cost applying an effective interest rate method less impairment loss, if any. Short-term receivable amounts are not discounted.

Investments in shares, which have no quoted price in an active market and the fair value of which cannot be reliably estimated, are classified as investments held for sale and are recognised at cost less impairment loss, if any.

### *(e) Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### *(f) Tangible non-current assets*

Items of property, plant and equipment, including assets acquired by way of finance lease, are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

# Notes to financial statements

## Significant accounting policies (continued)

Depreciation of own assets and assets acquired by way of finance lease is provided on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

| | |
|---|---|
| Land and buildings | 10-40 years |
| Machinery and equipment | 5 years |
| Other tangible non-current assets | 3-7 years |

The useful lives, residual values and depreciation methods of assets are reviewed on an annual basis.

### *(g) Intangible assets*

The Company's intangible asets are stated at cost less accumulated amortisation and impairment loss (refer to accounting principle l). Amortisation is charged to the income statement on a straight-line basis over the 3 years useful lives of intangible assets.

### *(h) Investments*

Investments held by the Company are classified as being available-for-sale. As the fair value of investments cannot be determined, they are stated at cost.

### *(i) Trade and other receivable amounts*

Trade and other receivable amounts are stated at amortised cost less impairment losses.

### *(j) Inventories*

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

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

# Notes to financial statements

## Significant accounting policies (continued)

### *(k) Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

### *(l) Impairment*

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement

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

### *(m) Dividends*

Dividends are stated as a liability for the period in which they are announced.

### *(n) Provisions*

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### *(o) Interest-bearing loans and borrowings*

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

### *(p) Trade and other payables*

Trade and other payables are stated at amortised cost.

# Notes to financial statements

## Significant accounting policies (continued)

### *(q) Revenue*

Revenue from sales of goods and services is recognised on an accrual basis.

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Long-term contracts are recognised as income in proportion to the stage of completion.

### *(r) Cost of goods sold and services rendered*

Cost of sales comprises costs related to to depreciation, salaries and wages and other costs incurred when earning income for the year.

### *(s) Distribution and administrative costs*

Distribution and administrative costs comprise costs related to administration, management, office expenses and etc., including depreciation and amortisation.

### *(t) Other operating income and costs*

Other operating income and charges comprise gain or loss from disposal of non-current assets as well as other income and costs not related to the primary activity.

### *(u) Financial and investing income and expenses*

Financial income and expenses comprise interest receivable and payable, realised and unrealised exchange gains and losses regarding debtors and creditors denominated in foreign currencies

Interest income is recognised in the income statement when accrues. Financial lease interest costs are recognised in the income statement applying the effective interest rate method.

# Notes to financial statements

## Significant accounting policies (continued)

### *(v) Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### *(z) Segment reporting*

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

## Changes in accounting policies

In late 2003 the IASB published a revised version of IAS 32 “Financial Instruments: Disclosure and Presentation”, a revised version of IAS 39 “Financial Instruments: Recognition and Measurement” and “Improvements to International Accounting Standards”, which made changes to 14 existing standards. In the first quarter of 2004 the IASB published IFRS 2 “Share-based Payments”, IFRS 3 “Business Combinations”, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and further amendments to IAS 39. In mid-2005 the IASB issued a further revision to IAS 39 regarding the Fair Value Option. Revised IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, amongst other matters, requires that changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. The Company adopted these effective from 1 January 2005.

Below we provide the discussion of the impact of the new standards, applicable to the Company.

# Notes to financial statements

*Financial instruments*

In accordance with IAS 39 requirements, the Company has reviewed its portfolio of financial instruments held at 1 January 2005 and has performed redesignation of these financial instruments into categories as defined by the revised IAS 39. The standard requires retrospective application. In the corresponding financial statements the Company's financial instruments were classified into the following categories:

-All receivables and deposits originated by the Company were classified as receivables originated by the Company and measured at amortised cost. Current portion of loans and receivables originated by the Company was classified as current assets, based on remaining maturity at the balance sheet date. There was no impact on net income or equity from this redesignation.

-All loans received and other interest bearing borrowings of the Company's were classified as held to maturity financial instruments and measured at amortised cost as of 1 January 2005. There was no impact on net income or equity from this redesignation.

## Effect of new standards, changes in previously valid standards and application of new interpretations on the financial statements

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

– 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 Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company does not classify any instruments as at fair value through profit and loss.

– 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. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Company's operations. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

# Notes to financial statements

– 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) fulfillment 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. Management is currently assessing the impact of IFRIC 4 on the Company's operations.

# Notes to financial statements

## 1. Segment reporting

The only business segment of the Company (initial segment reporting format) is production of milk products. Information on segments is presented taking into consideration geographical segments of the Company (secondary segment reporting format).

When presenting information on the basis of geographical segments, income from segments is recognised according to a geographical location of the client. Assets of segments are allocated as per geographical location of assets.

The results for 2005 per geographical segments are as follows:

| Thousand Litas | European Union | Lithuania | Russia | Other countries | Total |
|---|---|---|---|---|---|
| Income | 56 863 | 28 718 | 5 148 | 980 | 91 709 |
| Segment result | 5 360 | 4 383 | 1 405 | 388 | 11 536 |
| Not allocated costs | | | | | -5 740 |
| Operating result | | | | | 5 796 |
| Financial items, net | | | | | -599 |
| Result before tax | | | | | 5 197 |
| Income tax expenses | | | | | -914 |
| Net result for the year | | | | | 4 283 |
| Segment receivables | 523 | 1 533 | 1 246 | 3 466 | 6 768 |
| Not allocated assets | | | | | 31 613 |
| Total assets | | | | | 38 381 |
| Not allocated liabilities | | | | | 24 537 |
| Not allocated cash flows from ordinary activities | | | | | 3 911 |
| Not allocated cash flows from investing activities | | | | | -3 967 |
| Not allocated cash flows from financing activities | | | | | 992 |
| Net cash flows | | | | | 936 |
| Not allocated acquisitions of non-current assets | | | | | 3 734 |

# Notes to financial statements

The results for 2004 per geographical segments are as follows:

| Thousand Litas | European Union | Lithuania | Russia | Other countries | Total |
|---|---|---|---|---|---|
| Income | 55 962 | 13 998 | 4 440 | 702 | 75 102 |
| Segment result | 8 278 | 3 176 | 110 | 50 | 11 614 |
| Not allocated costs | | | | | -5 750 |
| Operating result | | | | | 5 864 |
| Financial items, net | | | | | -653 |
| Result before tax | | | | | 5 211 |
| Income tax expenses | | | | | -640 |
| Net result for the year | | | | | 4 571 |
| Segment receivables | 17 | 1 285 | 814 | 1 508 | 3 624 |
| Not allocated assets | | | | | 27 591 |
| Total assets | | | | | 31 215 |
| Not allocated liabilities | | | | | 20 477 |
| Not allocated cash flows from ordinary activities | | | | | 6 068 |
| Not allocated cash flows from investing activities | | | | | -3 785 |
| Not allocated cash flows from financing activities | | | | | -2 901 |
| Net cash flows | | | | | -618 |
| Not allocated acquisitions of non-current assets | | | | | 3 842 |

# Notes to financial statements

## 2. Other operating income

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Result from disposal of non-current assets | 71 | 27 |
| Result from disposal of materials | -89 | 11 |
| Other | 45 | 6 |
| Total | 27 | 75 |

## 3. Administrative costs

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Staff costs | 1 324 | 1 201 |
| Repair | 1 188 | 1 406 |
| Depreciation and amortisation | 431 | 311 |
| Taxes, except for income tax | 317 | 435 |
| Insurance | 201 | 163 |
| Bank fees | 132 | 176 |
| Financial, legal consulting | 109 | 21 |
| Other | 642 | 469 |
| Total | 4 344 | 4 182 |

## 4. Financial items, net

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| *Financial income* | | |
| Interest | 20 | 143 |
| Other | - | 18 |
| Total financial income | 20 | 161 |
| *Financial costs* | | |
| Interest | 570 | 787 |
| Foreign exchange losses | 44 | 27 |
| Other | 5 | - |
| Total financial costs | 619 | 814 |
| | -599 | -653 |

# Notes to financial statements

## 5. Income tax expense

***Recognised in the income statement***

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Current income tax expense | -1 085 | -243 |
| Deferred tax expense | 171 | -397 |
| Total income tax expense recognised in the income statement | -914 | -640 |

Taxable losses carry-forward were fully utilised when calculating taxable profit for 2004 (4,969 tLitas).

***Reconciliation of effective tax rate***

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Profit before tax | 5 197 | 5 211 |
| Non-deductible expenses | 2 274 | 1 413 |
| Non-taxable income | -235 | -35 |
| Taxable profit | 7 236 | 6 589 |
| Taxable loss brought forward from previous | 0 | 4 969 |
| Taxable profit | 7 236 | 1 620 |
| Tax rate | 15% | 15% |
| Income tax for the year | 1 085 | 243 |

***Non-deductible expenses***

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Depreciation of tangible non-current assets | 1 768 | 2 142 |
| Vacation reserve | 300 | 181 |
| Forfeits, bad receivable | 79 | -1 127 |
| Other | 127 | 217 |
| Total non-deductible expenses | 2 274 | 1 413 |

***Non-taxable income***

| | | |
|---|---|---|
| Adjustments related to prior periods | 176 | - |
| Insurance premiums | 12 | 18 |
| Other | 47 | 17 |
| Total | 235 | 35 |

# Notes to financial statements

## 6. Basic earnings per share

Calculation of basic earnings per share is based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year.

| | **2005** | **2004** |
|---|---|---|
| Number of issued shares calculated based on weighted average method | 124 856 | 99 500 |
| Net result for the year, in tLitas | 4 283 | 4 571 |
| Basic earnings per share, in Litas | 34,30 | 52,37 |

The diluted earnings per share are the same as basic earnings per share.

## 7. Tangible non-current assets

| Thousand Litas | **Land and buildings** | **Machinery and equipment** | **Other tangible assets** | **Constructio in progress** | **Total** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January 2004 | 8 214 | 15 303 | 5 320 | 1 172 | 30 009 |
| Acquisitions | 1 234 | 3 126 | 282 | -911 | 3 731 |
| Disposals | | 12 | 187 | 234 | 433 |
| Balance as at 31 December 2004 | 9 448 | 18 417 | 5 415 | 27 | 33 307 |
| Balance as at 1 January 2005 | 9 448 | 18 417 | 5 415 | 27 | 33 307 |
| Acquisitions | 1 002 | 1 256 | 2 244 | 749 | 5 251 |
| Disposals | | 73 | 378 | | 451 |
| Balance as at 31 December 2005 | 10 450 | 19 600 | 7 281 | 776 | 38 107 |
| **Depreciation and impairment** | | | | | |
| Balance as at 1 January 2004 | 1 153 | 6 036 | 3 223 | | 10 412 |
| Depreciation for the year | 294 | 2 359 | 528 | | 3 181 |
| Disposed assets | | 12 | 166 | | 178 |
| Balance as at 31 December 2004 | 1 447 | 8 383 | 3 585 | 0 | 13 415 |
| Balance as at 1 January 2005 | 1 447 | 8 383 | 3 585 | | 13 415 |
| Acquisitions | 411 | 2 616 | 596 | | 3 623 |
| Disposals | | 73 | 345 | | 418 |
| Balance as at 31 December 2005 | 1 858 | 10 926 | 3 836 | 0 | 16 620 |
| **Carrying amounts** | | | | | |
| As at 1 January 2004 | 7 061 | 9 267 | 2 097 | 1 172 | 19 597 |
| As at 31 December 2004 | 8 001 | 10 034 | 1 830 | 27 | 19 892 |
| As at 1 January 2005 | 8 001 | 10 034 | 1 830 | 27 | 19 892 |
| As at 31 December 2005 | 8 592 | 8 674 | 3 445 | 776 | 21 487 |

### *Insurance of liabilities*

To secure the bank loans, the Company has pledged its non-current assets with the books value 13,251 tLitas as at 31 December 2005 (2004 : 15,822 tLitas (note 14)).

# Notes to financial statements

### *Leased transport vehicles*

The Company has acquired several transport vehicles by way of finance leasing. The carrying amount of the leased assets amounted to 2,017 tLitas as at 31 December 2005 (2004: 1,292 tLitas). The leasing liabilities are secured by pledging the leased assets (note 14).

### *Depreciation*

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

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Cost of sales | 3 231 | 2 938 |
| Other operating costs | 392 | 243 |
| Total | 3 623 | 3 181 |

## 8. Intangible assets

| Thousand Litas | **Software** | **Total** |
|---|---|---|
| **Cost** | | |
| Balance as at 1 January 2004 | 316 | 316 |
| Acquisitions | 175 | 175 |
| Balance as at 31 December 2004 | 491 | 491 |
| | | |
| Balance as at 1 January 2005 | 491 | 491 |
| Acquisitions | 72 | 72 |
| Balance as at 31 December 2005 | 563 | 563 |
| | | |
| **Amortisation and impairment** | | |
| Balance as at 1 January 2004 | 68 | 68 |
| Amortisation for the year | 140 | 140 |
| Balance as at 31 December 2004 | 208 | 208 |
| | | |
| Balance as at 1 January 2005 | 208 | 208 |
| Amortisation for the year | 159 | 159 |
| Balance as at 31 December 2005 | 367 | 367 |
| | | |
| **Carrying amounts** | | |
| As at 1 January 2004 | 248 | 248 |
| As at 31 December 2004 | 283 | 283 |
| | | |
| As at 1 January 2005 | 283 | 283 |
| As at 31 December 2005 | 196 | 196 |

Amortisation charge is included in operating costs.

# Notes to financial statements

## 9. Investments

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Investments held for sale | 350 | - |

In November 2005 the Company signed a purchase agreement regarding acquisition of a 80% shareholding in UAB Modest. A prepayment for shares amounting to 350 tLitas is recorded under financial assets item in the financial statements.

UAB Modest is a milk processing company, which produces cheese, cottage cheese, sour cream and other milk products. The company's sales income for 2005 amounted approximately to 5,200 tLitas and the net profit amounted to 337 tLitas. The share capital of the company as at 31 December 2005 amounted to 1,469 tLitas and assets - 2,676 tLitas.

## 10. Inventories

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Raw materials | 656 | 310 |
| Finished production | 6 899 | 5 248 |
| Spare parts and tools | 872 | 602 |
| Total | 8 427 | 6 160 |

Raw materials comprise raw milk and other materials used in production.

As at 31 December 2005 the Company did not have any stocks stated at fair value less selling costs.

As at 31 December 2005 inventories with the book value up to 3,700 tLitas (2004 : 3,700 tLitas) were pledged to secure the bank loans (note 14).

## 11. Receivable amounts

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Trade receivable amounts | 3 309 | 2 157 |
| Prepayments | 1 777 | 570 |
| Other receivable amounts | 1 682 | 897 |
| | 6 768 | 3 624 |

As at 31 December 2005 the prepayments amount to 1,777 tLitas and are related mainly to prepayment for milk.

# Notes to financial statements

## 12. Cash and cash equivalents

| Thousand Litas | 2005 | 2004 |
|---|---|---|
| Cash at bank | 1 011 | 33 |
| Cash in hand | 30 | 72 |
| | 1 041 | 105 |

To secure the bank loans, the Company has pledged cash at bank and future inflows amounting up to 927 tLitas (2004 : 33 tLitas) as at 31 December 2005.

## 13. Share capital

As at 31 December 2005 the Company‘s share capital comprised 9,353,000 ordinary shares at a norminal value of 1 Litas each.

Holders of ordinary shares have at the shareholders meeting one voting right for one share and the right to dividends, which are announced from time to time.

The Company‘s shareholders as at the balance sheet date were the following persons :

| | Ordinary shares | Ownership% |
|---|---|---|
| Gintaras Bertašius | 7 816 056 | 93,19 |
| Sigitas Trijonis | 425 438 | 4,5 |
| Aleksandras Bertašius | 105 750 | 1,13 |
| Rita Domeikienė | 105 750 | 1,13 |
| | 9 353 000 | 100,00 |

### *Legal reserve*

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can not be distributed.

# Notes to financial statements

## 14. Interest bearing loans and borrowings

The Company's interest bearing loans and borrowings are as follows:

| Credit institution | Ref. | Loan amount | Interest rate | Balance at 31 12 2005 | Balance at 31 12 2004 |
|---|---|---|---|---|---|
| AB SEB Vilniaus Bankas | a) | 11 998 | 6mėn.LIBOR+1,5% | 11 727 | 8 459 |
| AB Snoro Bankas | b) | 2 072 | 6mėn.LIBOR+1,7% | 2 072 | 2 072 |
| AB Snoro Bankas | c) | 345 | 6mėn.LIBOR+1,7% | 345 | 345 |
| Nordic Environment FinanceCorporation(NEFKO) | d) | 691 | 3% | 345 | 575 |
| AB Snoro Bankas | e) | 350 | 3.87% | 0 | 0 |
| Total liabilities | | | | 14 489 | 11 451 |
| Less: current part | | | | -1 967 | -230 |
| Total long-term part of current liabilities | | | | 12 522 | 11 221 |

a) The loan (3,475 tEUR) was used to re-finance the previously received loans from AB SEB Vilniaus Bankas and AB Bankas Snoras as well as for working capital needs. The loan is repayable in equal monthly instalments. The loans matures on 26 December 2011. The Company has pledged itself to maintain the ratios of 6 million Litas EBITDA and 1.2 interest coverage. To secure the bank loan, the Company has pledged its assets (note 3), inventories (note 6), cash at bank (919 tLTL as at 31 December 2005), trade marks (not recorded in the financial statements) and shares in the Company (nominal value 3,202,486 LTL) pledged by the shareholders

b) The loan (600 tEUR) is used for working capital needs. The loans matures on 25 May 2007. To secure the bank loan, the Company has made a secondary pledge of assets (note 3), the land rent rights and cash at bank (8 tLTL as at 31 December 2005).

c) 100 tEUR credit line used for settlements with milk suppliers. The credit line matures on 29 May 2006. The Company has pledged 100 tons of cheese, and obtained a guarantee from the Agricultural Loans Guarantee Fund to secure repayment of 60 % of the credit amount.

d) The loan (200 tEUR) was granted for realisation of the ecological production project and is to be fully repaid by 15 July 2007.

e) A loan agreement was signed on 1 July 2005 in respect of reconstruction of the boiler and acquisition of a gas boiler. The Company expects to receive a grant from the Lithuanian Environment Investment Fund (LEIF) to finance the mentioned project, upon the receipt of which the loan shall be repaid. As at 31 December 2005 the mentioned loan was not disbursed

The effective interest rate applied during the period varied from 3 % to 4.14 %.

# Notes to financial statements

*Financial lease liabilities*

Financial lease is settled as follows:

| Thousand Litas | Minimum lease payments 2005 | Interest 2005 | Amount 2005 | Minimum lease payments 2004 | Interest 2004 | Amount 2004 |
|---|---|---|---|---|---|---|
| Shorter than within 1 year | 654 | 46 | 608 | 342 | 37 | 305 |
| From 1 to 5 years | 720 | 32 | 688 | 528 | 18 | 510 |
| Longer than within 5 years | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **1 374** | **78** | **1 296** | **870** | **55** | **815** |

The financial lease agreements do not foresee any contingent lease payments.

Leasing interest is variable, denominated in EUR LIBOR (6 or 12 months) plus 1,9%-2.5% margin.

## 15. Deferred tax assets and liabilities

### *Deferred tax assets and liabilities*

Deferred tax assets and liabilities calculated applying a 19% tax rate (2004 : 15%), are attributed to the following items:

| Thousand Litas | Assets | | Liabilities | | Net value | |
|---|---|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| Tangible non-current assets | 0 | 0 | 1 474 | 1 563 | 1 474 | 1 563 |
| Vacation reserve | -170 | -89 | 0 | 0 | -170 | -89 |
| Deferred tax (asset) / liabilities | -170 | -89 | 1 474 | 1 563 | 1 304 | 1 474 |

The difference between the value of tangible non-current assets carried in the tax and financial reporting has appeared due to faster depreciation periods for tax purposes. However, when calculating taxable result, the mentioned costs are expensed in the period in which they have incurred.

For deferred tax calculation the Company applied an income tax rate expected in the realisation period of temporary differences. The tax rate of 19% was applied for 2006, 18% - for the year 2007 and 15% - for subsequent periods. Due to expected change in tax rates the deferred tax liability has increased by 139 tLitas as at 31 December 2005.

# Notes to financial statements

## 16. Trade and other payable amounts

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Payable to suppliers | 4 874 | 3 006 |
| Payable salaries | 1 063 | 725 |
| Other | 474 | 2 768 |
| Total | 6 411 | 6 499 |

## 17. Financial instruments

Credit risk, interest rate risk and foreign exchange risk arise in the Company's activities carried out on normal business conditions.

### *Credit risk*

The Company has an established credit policy, and the credit risk is monitored on an ongoing basis. The Company has no significant concentration of credit risk as at the balance sheet date.

### *Foreign exchange risk*

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

The Company's foreign currencies position as at 31 December 2005 was as follows:

| | USD | EUR | SEK | LVL |
|---|---|---|---|---|
| Receivable amounts | 93 | 2 001 | 110 | 0 |
| Cash | 0 | 61 | 0 | 0 |
| Financial liabilities | 0 | -14 489 | 0 | 0 |
| Trade payable amounts | 0 | -473 | 0 | -72 |
| | 93 | -12 900 | 110 | -72 |

Foreign currency positions are translated into Litas at the official echange rate valid on the balance sheet date. The exchange rate of USD and Litas was 2,9102 LTL / USD as at 31 December 2005.

### *Interest rate risk*

The Company's financial liabilities are subject to variable interest rates, related to LIBOR varying from LIBOR+1.5% to LIBOR+1.7%.

As of 31 December 2005 the Company did not use any financial instruments to hedge its financial risks related to cash flows and interest rate.

# Notes to financial statements

## 18. Contingent and capital liabilities

Information on assets pledged is presented in note 14.

The Company has a tax dispute regarding receivable VAT amounting to 147 tLitas. The tax authorities have suspended the recovery of VAT until the dispute is resolved. The Company expects that the issue will be resolved in the beginning of 2006.

The Company does not have other liabilities not disclosed in the balance sheet.

## 19. Related parties

Transactions between related parties:

| Thousand Litas | 2005 m. | | 2004 m. | |
|---|---|---|---|---|
| | **Sales** | **Purchases** | **Sales** | **Purchases** |
| ŪKB Šilgaliai | 0 | 804 | 3 | 611 |
| Total | 0 | 804 | 3 | 611 |

| Thousand Litas | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | **Receivable amounts** | **Payable amounts** | **Receivable amounts** | **Payable amounts** |
| ŪKB Šilgaliai | 677 | 0 | 640 | 8 |
| Total | 677 | 0 | 640 | 8 |

UKB Šilgaliai is a supplier of milk. The Company's major shareholder and parties related to him hold part of shares of UAB Šilgaliai.

Remuneration to management is included in administrative costs "staff costs" (note 4):

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Remuneration to management | 409 | 371 |

Loans issued to the management are carried as receivable:

| Thousand Litas | **2005** | **2004** |
|---|---|---|
| Loan issued to the management | 112 | 542 |

The loan matures on 31 December 2006 and bears an interest rate of 0%.

# Notes to financial statements

## 20. Post balance sheet events

No significant events have occurred after the balance sheet date.

## 21. Explanation of transition to IFRS

As mentioned in note 1(a), these are the first financial statements prepared in accordance with IFRS.

The accounting policies, set out in note 1, have been applied in preparing the financial statements for the year ended 31 December 2005, in presenting the comparative information for the year ended 31 December 2004 and in preparing an opening IFRS balance sheet as at 1 January 2004 (the company's date of transition to IFRS).

The opening balance as to IFRS coincides with the opening balance as to Lithuanian Business Accounting Standards (LBAS).