AB Vilkyškių Pieninė

Consolidated financial statements for 2006

Contents

Company details

AB Vilkyškių Pieninė

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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

Management's statement on the consolidated annual accounts

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

The consolidated 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, 4 April 2007

Management:

Gintaras Bertašius
General Director

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Independent auditor's report to the shareholders of AB Vilkyškių Pieninė

We have audited the accompanying consolidated financial statements of AB Vilkyškių Pieninė, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a consolidated summary of significant accounting policies and other explanatory notes, set out on pages 5-35.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

"KPMG Baltics", UAB, a Lithuanian limited liability company, is a member of KPMG International, Swiss cooperative

Opinion

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

Report on legal and other regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year 2006 set out on pages 36-46 of the consolidated Annual Accounts and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2006.

Klaipėda, 4 April 2007
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
Lithuanian Certified
Auditor

Concolidated income statement

For the year ended 31 December 2006

Thousand Litas	Note	2006	2005
Revenue	1	115 719	91 709
Cost of sales		-102 262	-80 173
Gross profit		13 457	11 536
Other operating income, net		87	27
Distribution expenses		-1 921	-1 422
Administrative expenses	2	-5 788	-4 345
Results from operating activities		5 835	5 796
Financial income		73	20
Financial expenses		-1 025	-619
Net financing costs	3	-952	-599
Profit before income tax		4 883	5 197
Income tax expense	4	-1 009	-914
Profit for the period		3 874	4 283
Attributable to:			
Equity holders of the company		3 905	4 283
Minority interest		-31	0
Profit for the period		3 874	4 283
Basic earnings per share (in Litas)	5	0,42	0,46

The notes, set out on pages 10-35, are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at 31 December 2006

Thousand Litas	Note	2006	2005
Assets			
Property, plant and equipment	6	38 126	21 487
Intangible assets	7	1 061	196
Deferred tax assets	15	23	0
Long-term receivables		62	112
Total non-current assets		39 272	21 795
Prepayments for investments	8	0	350
Inventories	9	13 543	8 427
Trade and other receivables	10	11 057	6 768
Cash and cash equivalents	11	891	1 041
Total current assets		25 491	16 586
Total assets		64 763	38 381
Equity			
Share capital	12	9 353	9 353
Reserves		9 683	705
Retained earnings		4 967	3 786
Total equity attributable to equity holders of the Company		24 003	13 844
Minority interest		51	0
Total equity		24 054	13 844
Liabilities			
Interest-bearing loans and leasing liabilities	13	16 680	13 210
Capital grants	14	1 441	0
Deferred tax liabilities	15	2 793	1 304
Total non-current liabilities		20 914	14 514
Interest-bearing loans and leasing liabilities	13	5 567	2 575
Income tax payable		361	1 037
Trade and other amounts payable	16	13 867	6 411
Total current liabilities		19 795	10 023
Total liabilities		40 709	24 537
Total equity and liabilities		64 763	38 381

The notes, set out on pages 10-35, are an integral part of the consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2006

Thousand Litas	Note	2006	2005
Cash flows from operating activities			
Net profit		3 874	4 283
Adjustments:			
Depreciation	6	2 921	3 623
Amortisation	7	191	159
Part of capital subsidies recognised as income	14	-140	0
Impairment of non-current assets		45	0
Result of disposal of tangible non-current assets		-9	-71
Interest expenses, net	3	952	599
Income tax expense	4	1 009	914
Cash flows from ordinary activities before changes in the working capital		8 843	9 507
Change in inventories		-5 116	-2 267
Change in receivable amounts		-2 959	-2 105
Change in trade and other payable amounts		6 756	-389
		7 524	4 746
Paid / received interest, net		-951	-563
Income tax paid		-1 782	-285
Cash flows from operating activities		4 791	3 898
Cash flows from investing activities			
Acquisition of property, plant and equipment		-7 778	-3 662
Acquisition of intangible assets		-23	-72
Proceeds on sale of property, plant and equipment		271	104
Investment in subsidiary, net of cash acquired	8	-971	-350
Net cash flow from investing activities		-8 501	-3 980

Consolidated cash flow statement (continued)

For the year ended 31 December 2006

	Note	2006	2005
Cash flows from financing activities			
Loans received		12 428	3 156
Repayment of borrowings		-6 233	-230
Payment of finance lease liabilities		-1 135	-757
Dividends paid		-1 800	-1 177
Capital grants received		300	0
Net cash from financing activities		3 572	992
Change in cash and cash equivalents		-150	936
Cash and cash equivalents at1 January		1 041	105
Cash and cash equivalents at 31 December		891	1 041

The notes, set out on pages 10-35, are an integral part of the consolidated financial statements.

Consolidated statement on changes in equity

Thousand Litas	Note	Share capital	Revaluation reserve	Compulsory reserve	Retained earnings	Total equity
At 1 January 2005		9 353		466	919	10 738
Net profit for 2005					4,283	4,283
Transfer to reserves				239	-239	0
Dividends					-1,177	-1,177
At 31 December 2005		9 353	0	705	3 786	13 844
At 1 January 2006		9 353	0	705	3 786	13 844
Net profit for 2006					3 905	3 905
Increase of value of PPE*			8 764			8 764
Transfer to reserves				214	-214	0
Dividends					-2 500	-2 500
Losses not recognized in the income statement					-10	-10
At 31 December 2006	13	9 353	8 764	919	4 967	24 003

The notes, set out on pages 10-35, are an integral part of the consolidated financial statements.

*The increase in value of property, plant and equipment represents the revaluation of buildings, net of related deferred tax, amounting to 1 564 tLitas.

Notes to the consolidated financial statements

1. General information

Group consists of two companies:

- AB Vilkyškių Pieninė, parent company (hereinafter: the Company)
- UAB Modest, subsidiary (hereinafter: Subsidiary)

AB Vilkyškių Pieninė was established in 1993. The Company does not have any branches or representative offices. Operations are carried out in the main production buildings, located in Vilkyškiai, Pagėgiai region. The Company also has a production workshop in Tauragė as well as a milk purchase and processing centre in Eržvilkas, Jurbarkas region.

The Company is engaged in production and sales of different types of cheese and butter. Also, the Company sells whey, raw milk and cream.

In 2006 the Company acquired 89% voting shares in UAB Modest, which is a milk processing company operating in Širvintai region. UAB Modest specializuos is production of Mozarella cheese, cottage cheese, other milk products.

Number of employees in the Group at 31 December 2006 was 544 (2005 : 446 employees).

2. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that have been adopted by the European Union.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for:

- derivative financial instruments, which are stated at their fair value;
- buildings are stated at their fair value.

The consolidated financial statements have been prepared on the going concern basis.

Notes to consolidated financial statements

The preparation of consolidated 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.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiary was acquired in 2006. Only parent company's financial information is included in comparative information.

Notes to consolidated financial statements

Significant accounting policies (continued)

Functional and presentation currency

These consolidated financial statements are presented in Litas (LTL), which is the Group's functional currency. Except as indicated, the financial information presented in Litas has been rounded to the nearest thousand.

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for buildings which are stated at their fair value in the consolidated financial statementsfor 2006 and which in the previous periods were recognised at historical cost less depreciation and impairment. Impact of the change of this accounting policy on the consolidated financial statementsis is presented in note 6.

Financial instruments

Loans and receivables are non derivative financial instruments and are initially recognised at fair value plus transaction costs directly related to the acquisition of the 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.

Foreign currency

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

Notes to consolidated financial statements

Significant accounting policies (continued)

Tangible non-current assets

Recognition and measurement

Items of property, plant and equipment, are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure directly related to acquisition of assets.

When parts of property, plant and equipment have different useful lifetimes, they are accounted for as separate items of property, plant and equipment (major compound parts).

Buildings are recorded at revaluated amounts, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful economic lives of assets. The revaluation reserve for buildings is being reduced in conformity with depreciation of certain assets.

In the case of revaluation, when the estimated fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and such impairment is recognised as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve, to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property, plant and equipment under the capital caption. However such an increase in value is recognised as income to the extent it does not exceed the decrease of previous revaluation recorded under capital.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Notes to consolidated financial statements

Significant accounting policies (continued)

The estimated useful lives for the current and comparative periods are as follows:

Land and buildings	10-40 years
Machinery and equipment	5-15 years
Other tangible non-current assets	3-7 years

The useful lives, residual values and depreciation methods of assets are reviewed on each balance sheet date.

Intangible assets

The Group's intangible asets except for goodwill are stated at cost less accumulated amortisation and impairment loss. Amortisation is charged to the income statement on a straight-line basis over the 3 years useful lives of intangible assets.

Goodwill is stated at cost less impairment losses.

Trade and other receivable amounts

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

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to consolidated financial statements

Significant accounting policies (continued)

Impairment

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

The carrying amounts of the Company’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tac discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividends

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

Notes to consolidated financial statements

Significant accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the Group 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.

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 on an effective interest rate basis.

Trade and other payables

Trade and other payables are stated at amortised cost.

Finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized on the Group's balance sheet.

The Group adopted IFRIC 4 Determining whether an Arrangement Contains a Lease, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2005 consolidated financial statements.

Revenue

Revenue from sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

Notes to consolidated financial statements

Significant accounting policies (continued)

Distribution and administrative costs

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

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.

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 earned. Financial lease interest costs are recognised in the income statement applying the effective interest rate method.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Calculation of income tax is based on the reqirements prescribed by the Lithuanian tax legislation.

In 2005 and 2004 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006 companies will have to pay an additional 4% tax calculated based on the income tax principles, and one financial year beginning on 1 January 2007 – 3% tax. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

Notes to consolidated financial statements

Significant accounting policies (continued)

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.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the company by the weighted number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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.

Notes to consolidated financial statements

IFRS and IFRIC Interpretations not yet effective

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

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

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

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

- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

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

Notes to consolidated financial statements

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

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

- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations.

Notes to consolidated financial statements

1. Segment reporting

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

Segment results for 2006 by geographical segments are as follows:

Thousand Litas	European Union	Lithuania	Russia	Other countries	Total
Income	63 559	34 713	17 310	137	115 719
Segment result	5 337	5 651	2 445	24	13 457
Not allocated costs					-7 622
Result from operating activities					5 835
Financial items, net					-952
Profit before income tax					4 883
Income tax expenses					-1 009
Profit for the period					3 874
Segment receivables	1 581	8 596	880	0	11 057
Not allocated assets					53 706
Total assets					64 763
Not allocated liabilities					40 709
Not allocated cash flows from ordinary activities					4 791
Not allocated cash flows from investing activities					-8 501
Not allocated cash flows from financing activities					3 572
Net cash flows					-150
Not allocated acquisitions of non-current assets					-7 801

Notes to consolidated financial statements

Segment results for 2005 by 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					3 898
Not allocated cash flows from investing activities					-3 980
Not allocated cash flows from financing activities					992
Net cash flows					936
Not allocated acquisitions of non-current assets					3 734

Notes to consolidated financial statements

2. Administrative expenses

Thousand Litas	2006	2005
Staff costs	1 846	1 324
Repair	1 466	1 188
Depreciation and amortisation	544	431
Taxes, except for income tax	326	317
Insurance	318	201
Bank fees	191	132
Consulting	370	109
Other	727	643
Total	5 788	4 345

3. Financial items, net

Thousand Litas	2006	2005
Finance income		
Interest	73	20
Total financial income	73	20
Finance costs		
Interest	951	570
Foreign exchange losses	66	44
Other	8	5
Total financial costs	1 025	619
	-952	-599

Notes to consolidated financial statements

4. Income tax expense

Recognised in the income statement

Thousand Litas	2006	2005
Current income tax expense	-1 113	-1 085
Deferred tax expense	104	171
Total income tax expense recognised in the income statement	-1 009	-914

Reconciliation of effective tax rate

Thousand Litas	2006	2005
Profit before tax	4 883	5 197
Non-deductible expenses (income)	427	896
Taxable profit	5 310	6 093
Tax rate	19%	15%
Income tax for the year	-1 009	-914

Non-deductible expenses

Thousand Litas	2006	2005
Forfeits, bad receivable	199	79
Other	228	817
Total non-deductible expenses	427	896

Influence of change in temporary differences

Thousand Litas	2006	2005
Vacation reserve	26	57
Tangible non-current assets	52	114
Tax losses carried forward	26	0
Total	104	171

Notes to consolidated financial statements

5. Earnings per share

	2006	2005
Number of issued shares calculated based on weighted average method	9 353	9 353
Net profit, attributable to ordinary shareholders, in tLitas	3 905	4 283
Basic earnings per share, in Litas	0,42	0,46

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

In December 2005 the Company decreased the par value of shares from 100 Litas to 1 Litas. For the ratios of basic earnings per share to be comparable, the weighted average of shares for 2005 is the number of shares as at 31 December 2005.

6. Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Cost					
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
Balance as at 1 January 2006	10 450	19 600	7 281	776	38 107
Acquisitions through business combination	980	265	241	0	1 486
Acquisitions	469	3 777	2 593	1 303	8 142
Revaluation	8 158				8 158
Disposals	-28	-377	-637	0	-1 042
Reclassification	-1 089	96	1 914	-921	0
Balance as at 31 December 2006	18 940	23 361	11 392	1 158	54 851
Depreciation and impairment					
Balance as at 1 January 2005	1 447	8 383	3 585		13 415
Depreciation for the year	411	2 616	596		3 623
Disposals	0	-73	-345		-418
Balance as at 31 December 2005	1 858	10 926	3 836	0	16 620
Balance as at 1 January 2006	1 858	10 926	3 836		16 620
Depreciation for the year	478	1 578	865		2 921
Disposals	-4	-377	-310		-691
Reclassification	-163	-386	549		0
Revaluation	-2 125				-2 125
Balance as at 31 December 2006	44	11 741	4 940	0	16 725
Carrying amounts					
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
As at 1 January 2006	8 592	8 674	3 445	776	21 487
As at 31 December 2006	18 896	11 620	6 452	1 158	38 126

Notes to consolidated financial statements

Pledges

To secure bank loans, the Group has pledged its non-current assets with a book value of 24,800 tLitas as at 31 December 2006 (2005: 13,251 tLitas (note 13).

Leased transport vehicles

The Group has acquired certain assets by way of finance leasing. The carrying amount of the leased assets amounted to 2,479 tLitas as at 31 December 2006 (2005: 2,017 tLitas). The leasing liabilities are secured by pledging the leased assets (note 13).

Depreciation

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

Thousand Litas	**2006**	**2005**
Production cost	2 551	3 231
Sales and administrative expenses	370	392
Total	2 921	3 623

As of 1 January 2006 the Group changed depreciation periods for certain equipment and buildings. Therefore, depreciation costs for 2006 decreased by 1,683 tLitas.

Valuation of buildings

The Group performed valuation of buildings as at 31 December 2006 and recorded valuation results in the financial statements. The market value of the buildings as determined by asset valuators was higher than the carrying amount by 10,283 tLitas. The value increase amounting to 10,328 tLitas was recognised under equity, the impairment of 45 tLitas was recorded in the income statement.

The amount in equity as at 31 December 2006 is shown net of related deferred tax amounting to Litas 1 564 thousand.

Notes to consolidated financial statements

7. Intangible assets

Thousand Litas	Goodwill	Software	Total
Cost			
Balance as at 1 January 2005	0	491	491
Acquisitions	0	72	72
Balance as at 31 December 2005	0	563	563
Balance as at 1 January 2006	0	563	563
Acquisitions through business combinations	1 033	0	1 033
Acquisitions	0	23	23
Balance as at 31 December 2006	1 033	586	1 619
Amortisation and impairment			
Balance as at 1 January 2005	0	208	208
Amortisation for the year	0	159	159
Balance as at 31 December 2005	0	367	367
Balance as at 1 January 2006	0	367	367
Amortisation for the year	0	191	191
Balance as at 31 December 2006	0	558	558
Carrying amounts			
As at 1 January 2005	0	283	283
As at 31 December 2005	0	196	196
As at 1 January 2006	0	196	196
As at 31 December 2006	1 033	28	1 061

Amortisation charge is included in operating expenses.

Notes to consolidated financial statements

8. Acquisition of subsidiary

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

Thousand Litas	**Pre-acquisition carrying amounts**	**Fair value adjustments**	**Recognized values on acquisition**
Property, plant and equipment	1 809	-280	1 529
Inventories	40	-	40
Trade and other receivables	426	-	426
Cash and cash equivalents	60	-	60
Loans and borrowings	-721	-	-721
Deferred tax liabilities	-72	42	-30
Trade and other payables	-906	-	-906
Net identifiable assets	636	-238	398
Minority interest			-50
Goodwill on acquisition			1 033
Consideration paid, satisfied in cash			1 381
Cash acquired			-60
Advance payment made in 2005			-350
Net cash outflow in 2006			971

In 2006 the Company acquired by parts an 89% shareholding of UAB Modest. The control acquisition date is 3 January 2006, when a shareholding of 80% was acquired. A prepayment of 350 tLitas was made in 2005.

UAB Modest is a milk processing company, which produces cheese, cottage cheese, sour cream and other milk products.

The goodwill recognised on the acquisition is attributable mainly to the synergies expected to be achieved from integrating the company into the Group's existing diary business.

9. Inventories

Thousand Litas	**2006**	**2005**
Raw materials	641	656
Finished production	11 669	6 899
Spare parts and auxiliary materials	1 233	872
Total	13 543	8 427

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

As at 31 December 2006 the Group did not have any stocks stated at net realisable value.

As at 31 December 2006 inventories with the book value up to 7,250 tLitas (2005 : 3,700 tLitas) were pledged to secure the bank loans (note 13).

Notes to consolidated financial statements

10. Receivable amounts

Thousand Litas		2006	2005
Trade receivable		6 007	3 309
Prepayments	a)	1 319	1 777
Capital subsidies receivable	b)	1 281	0
Export compensations receivable	c)	1 550	425
Other receivable		900	1 257
		11 057	6 768

a) Prepayments mainly comprise advance payments to farmers for milk.

b) Capital grants receivable are related to realisation of BPD program for modernisation of production. The Group fulfilled all the conditions to receive the grant. It is expected that the grant will be paid in the first half of 2007.

c) Export compensations are granted for cheese and butter which are exported to certain not EU countries. Compensations receivable are recognised as income on an accrual basis after the export of goods is carried out. In 2006 income from export compensations amounting to 2,691 tLitas is recorded under sales income (2005 : 2,296 tLitas).

11. Cash and cash equivalents

Thousand Litas	2006	2005
Cash at bank	67	1 011
Cash in hand	824	30
	891	1 041

To secure the bank loans, the Group has pledged cash at bank and future inflows amounting up to 4,000 tLitas (2005 : 927 tLitas) as at 31 December 2006.

Notes to consolidated financial statements

12. Share capital

As at 31 December 2006 issued share capital comprised 9,353,000 ordinary shares at a norminal value of 1 Litas each. There were no new issues during 2006. 7,780,756 of shares are pledged to financial institutions.

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, and to participate in capital on a winding up.

The parent company‘s shareholders as at the balance sheet date were:

	31 12 2006		31 12 2005	
	Number of shares	**Ownership**	**Number of shares**	**Ownership**
Gintaras Bertašius	6,016,506	64%	8,716,056	93%
Martynas Bertašius	935,000	10%	0	0%
Gabrielė Bertašiūtė	935,000	10%	0	0%
Sigitas Trijonis	425,538	5%	425,538	5%
Rita Domeikienė	105,656	1%	105,656	1%
Aleksandras Bertašius	0	0%	105,656	1%
Other	935,300	10%		
	9,353,000	**100%**	**9,353,000**	**100%**

Revaluation reserve

Reserve, amounting to 8 764 tLitas, represents impact (net of tax) of revaluation of buildings of the parent company, performed as at 31 December 2006.

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 consolidated financial statements

13. Interest bearing loans and borrowings

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

Credit institution	Ref.	Loan amount	Interest rate	Balance at 31 12 2006	Balance at 31 12 2005
AB SEB Vilniaus Bankas	a)	11 998	6monthLIBOR+1,3%	10 998	11 727
AB Snoro Bankas	b)	2 072	6monthLIBOR +1,75%	1 692	2 072
AB Snoro Bankas	c)	345	6monthLIBOR +1,75%	0	345
Nordic Environment FinanceCorporation (NEFCO)	d)	691	3%	115	345
AB SEB Vilniaus Bankas	e)	7 078	6 month.LIBOR+1,3%	3 972	0
AB SEB Vilniaus Bankas credit line	f)	4 005	6 month LIBOR+1,3%	3 307	0
AB DnB Nord bankas	g)	600	3 month VILIBOR+2.7%	600	-
Finance lease liabilities				1 563	1 296
Total liabilities				22 247	15 785
Less: current part				-5 567	-2 575
Total long-term part of current liabilities				16 680	13 210

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 Group has pledged to maintain the ratios of 6 million Litas EBITDA and 1.2 interest coverage. To secure the bank loan, the Group has pledged its assets (note 6), inventories (note 10), cash at bank, trade marks and shares in the Group (nominal value 7,780,756 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 Group has made a secondary pledge of assets, the land rent rights and cash at bank.

c) 100 tEUR credit line used for settlements with milk suppliers.

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) The loan agreement was concluded on 11 February 2006. The funds received are used for acquisition of new equipment used in whey processing, production of cheese, expansion of capacities of the workshop for acceptance of milk. It is expected to receive a grant from the Structural Funds of EU, amounting to 3,450 tLitas, which will be used for partial repayment of the loan. To the secure the loan the Group pledged its movable and not movable assets. The loan is repayable in equal parts and matures on 20 December 2012. The Group took an obligation to maintain the annual EBITDA ratio not less than 10 million Litas in 2006 and 9 million Litas in subsequent periods.

Notes to consolidated financial statements

f) According to the agreement, dated 14 June 2006, the Group was granted a credit facility of 1,160 tEUR for working capital needs. The credit limit must be fully repaid before 20 June 2008. To secure the liability the Group has pledged its real estate and equipment.

g) Short term credit facility is payable by Subsidiary and shall be fully repaid before 16 September 2007. Financing was obtained for the working capital needs. The Group pledged its equipment and buildings, the carrying amount of which was 940 tLitas.

Maturity of loans:

Thousand Litas	**2006**	**2005**
Within 1 year	4 843	1 967
From 1 to 5 years	15 841	10 322
After 5 years		2 200
Total	20 684	14 489

An effective annual interest rate applied on all loans during the period varied from 3 % to 6 %.

Finance lease liabilities

Finance lease is settled as follows:

Thousand Litas	**Minimum lease payments**	**Interest**	**Amount**	**Minimum lease payments**	**Interest**	**Amount**
	2006	**2006**	**2006**	**2005**	**2005**	**2005**
Shorter than within 1 year	777	53	724	654	46	608
From 1 to 5 years	883	44	839	720	32	688
More than 5 years	0	0	0	0	0	0
Total	**1 660**	**97**	**1 563**	**1 374**	**78**	**1 296**

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

Leasing interest is variable, denominated in EUR LIBOR (6 or 12 months) plus 1,4% - 2.95% margin.

14. Capital grants

Thousand Litas	**2006**	**2005**
Carrying amount in the beginning of the period	0	0
Grants received	300	0
Accrued grants received (note 10)	1 281	0
Recognised as income during the period	-140	0
Balance at the end of the period	1 441	0

Notes to consolidated financial statements

15. Deferred tax assets and liabilities

Deferred tax assets and liabilities calculated applying a 15-18% tax rate (2005 : 15-19%), are attributed to the following items:

Thousand Litas	Assets		Liabilities		Net value	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Tangible non-current assets	0	0	2 983	1 474	2 983	1 474
Vacation reserve	-187	-170	0	0	-187	-170
Tax losses carried forward	-26				-26	
Deferred tax (asset) / liabilities	-213	-170	2 983	1 474	2 770	1 304

For deferred tax calculation the Group applied an income tax rate expected in the realisation period of temporary differences. The tax rate of 18% was applied for 2007, and 15% - for subsequent periods.

Deferred tax liability related to revaluation of non-current assets, which was recognised in equity, amounted to 1,570 tLitas. A decrease in the deferred tax liability of 104 tLitas was recorded in the income statement.

16. Trade and other amounts payable

Thousand Litas	**2006**	**2005**
Payable to suppliers	11 109	4 874
Salaries	1 214	1 063
Dividends	700	0
Other	844	474
Total	13 867	6 411

17. Related parties

Transactions with related parties:

Thousand Litas	2006		2005	
	Sales	**Purchases**	**Sales**	**Purchases**
ŪKB Šilgaliai	0	971	3	804
Total	0	971	3	804

Thousand Litas	31 December 2006		31 December 2005	
	Receivable amounts	**Payable amounts**	**Receivable amounts**	**Payable amounts**
ŪKB Šilgaliai	136	0	677	0
Total	136	0	677	0

Notes to consolidated financial statements

UKB Šilgaliai is a supplier of milk. The major shareholder of the Company and persons related to him have ownership rights to participating part in UAB Šilgaliai.

Salaries to management are included in administrative costs under caption "staff costs" (note 2):

Thousand Litas	**2006**	**2005**
Salaries to management	471	409

To labour relations related amounts payable to management amounted to 105 tLitas as at 31 December 2006 (2005: 99 tLitas).

Outstanding loans and prepayments to management are recognised under receivable amounts:

Thousand Litas	**2006**	**2005**
Loans issued to management	0	112
Prepayments to management	0	699
		811

In December 2006 the management repaid prepayments to the Group amounting to 1,296 tLitas. During January 2007 the Group made prepayments to the management in the amount of 1,350 tLitas, which will be used for acquisition of real estate on behalf of the company.

18. Financial risk management

The Group operates in international markets and therefore is exposed to credit, foreign exchange and liquidity risks.

Credit risk

Credit risks, or the risk of counter-parties default, are controlled by application of credit terms and monitoring procedures. The Group applies procedures ensuring that services are provided to reliable clients without exceeding the set credit limits.

Foreign exchange risk

The Group follows the policy of co-ordinating cash flows from the expected future income with acquisitions and other costs denominated in foreign currencies. The main part of the Group's transactions in 2006 and 2005 are denominated in Litas and EUR, therefore the Group did not expose to significant foreign currency exchange risk (Litas is pegged to Euro at a fixed rate of 3.4528 LTL / EUR).

Notes to consolidated financial statements

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents.

Interest rate risk

The Group's financial liabilities are subject to variable interest rates, related to LIBOR varying from LIBOR+1.3% to LIBOR+2.7%.

In 2006 the Company concluded an interest rate swap agreement with a bank, enabling to hedge partly from the interest rate fluctuations. The fair value of the swap, amounting to Litas 69 thousand is included under receivable amounts.

19. Fair value of financial instruments

The estimated fair value of financial instruments is made in accordance with the requirements of IAS 39 Financial Instruments: Disclosure and Presentation. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm’s length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

For determination of fair values of the mentioned financial instruments, the Group uses the following methods and assumptions:

Cash. Represents cash on hand the nominal amount of which approximates to its fair value.

Receivable amounts and loans. Fair values of loans and and amounts receivable approximate to their carrying amounts.

Amounts Due from and to Banks and Credit and Financial Institutions. For assets maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, due to the re-pricing of assets to the market interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximate the carrying amounts

The management is of the opinion that as at 31 December 2006 the interest rate risk in relation to financial assets and liabilities was minimal as deviation of carrying amounts from relevant fair values was insignificant.

Consolidated annual report for 2006

The consolidated annual report is prepared in compliance with the requirements of the Republic of Lithuania financial reporting law article number 24, requirements of the Republic of Lithuania consolidated company accounts reporting law article number 9, according to the rules of the Republic of Lithuania securities law article number 21 and the Republic of Lithuania public companies law article number 34. According to the requirement of the Republic of Lithuania securities law article number 21 part 3 and „AB Vilniaus vertybinių popierių birža“ trading rules paragraph number 20.5, Company discloses how it complies with the corporate governance code for the companies listed on the Vilnius Stock Exchange.

1. Unbiased overview of the business group‘s financial state, activities and development, description of the risk factors faced by the group

The main AB “Vilkyškių Pieninė“ business activity is the production of cheese, melted and smoked cheese, butter products. The Company is specializing in the making of fermented cheese; butter products, sour cream and melted cheese are produced in order to efficiently exploit Company’s production capacities.

During year 2006 the Company has purchased 122 thousand tones of basic fat level milk (increase by 28.7% if compared with 2005) and produced 10,204 tones of fermented cheese (increase by 23 %). Despite lower sales prices of production during the 1st half of 2006, the growth of the raw milk prices and an increase in salaries and energy costs, AB Vilkyškių Pieninė managed to maintain profit before taxes (5.1 million LTL) at the same level as in 2005.

The previous financial year is also exceptional due to the fast growth in exports – during 2006 “AB Vilkyškių pieninė” has sold 1696 tones of cheese to Russian market and reached the sales turnover of 17.3 million LTL (15% of total company’s sales during 2006). Comparing with 2005, the amount of exported cheese has increased by more than 4 times.

The most important events for AB “Vilkyškių pieninė” in 2006:

- 2006.01.12 – AB “Vilkyškių pieninė” has acquired 80.24% of UAB “Modest” shares. Acquired enterprise produces fresh diary products and “Mozzarella” type cheese. It is planned to modernize technological base of the company and concentrate business activities on the production of “Mozzarella” type cheese.

- 2006.05.04 – during the period of 2006.04.24-2006.05.04 „Vilkyškių pieninė“ has successfully distributed 10% of company‘s shares on Vilnius Stock Exchange.

- On 11 July 2006 the Company has signed an agreement with the National Paying Agency concerning EU structural funds support of 3.45 million LTL to be provided for AB „Vilkyškių pieninė“. The funds will be used for modernization of production processes: to technologically upgrade cheese production line and implement new whey processing project. The total value of the whole project is over 7.63 million LTL. Support from EU accounts to 45% of the whole project value.

- Investments into modern processing technologies will allow even more increasing production efficiency, quality control, and minimizing generation of waste products. Approximately half of the provided funds has been already used for the modernization of cheese production line. Installed equipment meets the highest EU hygiene requirements, as now the whole cheese production process is fully automated.

  The remaining part of the funds is allocated for the acquisition of whey processing equipment. The Company is planning to start whey processing already by the end of 2007.

- On 10 August 2006 UAB "Modest" has signed an agreement with the National Paying Agency regarding EU structural funds support of 2.1 million LTL to be allocated for the company. The support will be used for the modernization of production processes – company is planning to install new raw milk processing equipment and modern "Mozzarella" type cheese production – packaging line, and upgrade specialized milk and diary products transport fleet. Implementation of this EU supported project will allow increasing competitiveness and operating efficiency of UAB "Modest" as well as expanding assortment of high value-added diary products. In addition to that, modernization of company's production processes will enable UAB "Modest" to export its products to EU countries.

Despite successful business activity, company faces specific risk factors affecting its operations.

Risk factors related to the company's business

- The main Company's activity is milk processing (production of fermented cheese). The main factors creating business risk are possible changes in the raw material (milk) markets, directly or indirectly related to the business of "AB Vilkyškių pieninė" and likely to affect Company's cash flows and operating results

- The Company is specializing in the production of cheese. The largest part of revenues is received from sales of cheese and cheese products. Due to this reason company's revenues and profit is sensitive to the negatives changes in the demand or prices of cheese (market risk). The price of cheese can also be negatively affected by the competition in international and local market.

- Production of fermented cheese is a time consuming process which can take from 1 up to 3 months. Such production specifics does not allow quick reaction to the rapid changes in the cheese market and thus could negatively affect Company's cash flows and operating results.

- Company's business (especially raw milk collection) is a labor intensive process. Shortage in labor force and growth in salaries can negatively affect Company's growth potential and operating results.

- Company's credit risk is connected to the trade debtors. Risk that business partners would not meet their financial obligations is regulated by established controlling procedures. Credit risk connected to the liquid assets held in banks is limited as the Company works only with the biggest Lithuanian banks (mainly with AB "SEB Vilniaus bankas"). On 31 December 2006 debt to asset ratio was equal to 0.60. The interest rate of all the major loans is connected to the EURIBOR level. On 31 December 2006 the remaining loans to credit institutions were equal to 21,601 thousand LTL. Loans are denominated in EUR. The pay-back of the loans is going on according to the agreements, with no overdue payments.

- Currency exchange risk. Operations with foreign currency are evaluated in LTL according to the exchange rate of operation date. Cash and liabilities denominated in foreign currency are evaluated in LTL using exchange rate of the balance sheet formation date. Gain or loss due to currency exchange fluctuation is reported in the profit and loss account. The main part of Company's income is received in EUR. There are no such foreign currency transactions which could significantly affect Company's financial results due to exchange rate fluctuation.

Risk factors related to the industry

- Agriculture in European Union (including milk production) is a highly regulated sector. A price level of raw milk is regulated through limitation of supply to processing companies and final consumers, using interventional purchases of milk products and by application of tariff for imported and subsidies for exported EU milk products. The World Trade Organization and other organizations supporting free trade are persuading EU to decrease the regulation level in agriculture sector. The liberalization of milk market could decrease the price of the raw milk as well as processed products and reduce current export subsidies thus increasing competition from non-EU countries. Such factors can negatively affect Company's cash flows and operating results.

- Milk products are produced using raw materials of animal origin. Such cattle infections as Mad Cow disease can negatively affect supply of raw milk and decrease the demand for milk products. Such changes would negatively affect Company's cash flows and operating results.

2. The analysis of the business group's financial and non-financial activities results. Information related to personnel and business environment issues

The main indicators of AB „Vilkyškių pieninė" company's and group's financial results for year 2006 (if not indicated differently, in thousands of LTL):

	2006		2005		2004	
	Company	Group	Company	Group	Company	Group
Sales revenues	111 551	115 719	91 709	-	75 102	-
Cos of goods sold	98 775	102 262	80 173	-	63 937	-
Gross profit	12 776	13 457	11 535	-	11 614	-
Net profit	4 084	3 905	4 283	-	4 788	-
Net profit margin, %	3.66%	3.37%	4.67%	-	6.38%	-

During the first half of 2006 company has generated 203 thousands LTL as earnings before taxes (EBT). Compared with the same period in 2005, the EBT has decreased by 80%. Due to decreased prices of cheese (-3.4%) and sour-cream (-7.3%), "AB Vilkyškių pieninė" has respectively lost 1.15 m. LTL and 0.57 m. LTL as sales revenues. As a result, gross profit margin decreased from 11.6% to 8.4%. A larger decrease was avoided due to smaller raw milk price, which has declined by 1.3%.

EBT for the first 9 months of 2006 has decreased by 42% if comparing with the same period during 2005. Due to lower prices of cheese and sour-cream company has lost respectively 1.1 m. LTL and 1.0 m. LTL. Despite the fact that cheese prices in the 3rd quarter have come back to the level of 2005, Company's gross profit margin has decreased from 14% to 11%. The profit margin was additionally pulled down by growing personnel and energy expenses.

After cheese prices have reached the level of 2005 in the 3rd quarter, during the last quarter, which was the most successful in 2006, "AB Vilkyškių pieninė" has generated 4.5 million LTL of gross profit.

Comparing with 2005 annual gross profit margin has declined from 12.6% to 11.45%. Besides decreasing prices of realized production, profitability was also negatively affected by implemented modernization of technological Company's base and non-recurring expenses associated with "AB Vilkyškių pieninė" shares enlistment on the Vilnius stock exchange. Due to these factors Company's expenses during 2006 has increased by 20%.

The profitability of subsidiary company UAB "Modest" has declined due to the decision to specialize in the production of "Mozzarella" type of cheese and partly discontinuing production of fresh diary products.

During the reporting period the number of AB „Vilkyškių pieninė" employees has increased from 451 to 502.

On 31 December 2006 544 people were employed by the business group.

3. Information links and additional explanation of consolidated financial statements data

There are no additional explanations.

4. Important events after the end of the reporting period

There have been no important events after the end of financial year 2006.

5. The plans and forecasts of the business group's activities

In 2007 the Company is planning to increase its sales revenues up to 135 million LTL and earn 5 m. LTL of net profit. Growth is expected due to the current investments and acquisition of UAB "Modest".

The new whey processing project is planned to be implemented during 2007 at the main company's production site in Vilkyškiai. Part of the project is financed by EU structural funds.

6. Information about business group's research and development activities

In 2006 the Company continued rapid investment into expansion of production capacities and modernization of production processes. In order to increase product assortment, AB „Vilkyškių pieninė" in January 2006 Company has acquired UAB „Modest", which specializes in the production of „Mozzarella" type cheese. The company started realisation of the investment project in relation to modernisation of the cheeze production line and whey processing. It is planned that the total investment in the mentioned project will amount to 7.63 million LTL. Current and planned investment projects are financed by EU structural funds.

7. Number and nominal value of parent company's shares owned by the company, its subsidiaries and delegated persons who are acting on their own

There are no such shares.

8. When company is using financial tools and when it is important for valuation of business group's assets, shareholder equity, liabilities, financial state and operating results, financial risk management goals are disclosed, as well as employed major transactions insurance tools, for which insurance transactions accounting is applicable, as well as group's price, credit, liquidity, and cash flow risks

In 2006 company has entered into floating to fixed interest rate swap agreement paying the fixed leg. The total amount agreed in the contract is 3.2 million EUR. Fixed interest rate is 3.55%, limit for the floating interest rate is 4.75%.

9. Information about parent company's branch offices

Parent company currently has no branch offices.

10. Corporate governance disclosure form for listed companies

AB „Vilkyškių pieninė“ (the Company) in compliance with the Republic of Lithuania securities law article 21 paragraph 3 and AB „Vilniaus vertybinių popierių birža“ (VVPB) trading rules paragraph 20.5 discloses how the Company meets the requirements of the corporate governance code for companies listed on Vilnius Stock Exchange.

The company discloses how it meets each principle of the corporate governance code. Disclosure is provided as confirmation, which means that company meets, partially meets or doesn‘t meet the requirements of the specific principle of the corporate governance code.

Principle I: Basic Provisions

The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value

Company confirms that it meets the requirements of the principle I. The recommendations of the paragraph 1.1 are partially met as Company constantly discloses information related to the development strategy and other activities related to the maximization of shareholders value using its internet web page (http://www.suris.lt/investuotojams/), BNS news agency reports.

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

Company confirms that partially meets the requirements of principle II. Company has a collegial management body – management board, and two managing employees of administration: the chairman of the board and a senior accountant. Supervisory board as a collegial supervisory body is not present. The supervision of company's activities and management is performed by the management board.

The Company is not meeting the recommendation of the article 2.3 – currently the single collegial body is not a supervisory but management body, simultaneously performing supervisory function.

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The Company is partially meeting the recommendation of the article 2.5 regarding the sufficient number of the members in the collegiate body – currently there are 4 members in the management board was leaving a probability that a single member can dominate while taking decisions.

The company is not meeting recommendation of the article 2.7, as the chairman of the board is at the same time the director of the company. The other members of the board are responsible for ensuring that decisions taken are fair and unbiased.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.

Currently it is not possible to fully evaluate how the Company meets the requirements of the principle III, as there has not yet been any general meeting of the shareholders, during which the collegial bodies are elected.

The company is meeting the recommendation of the paragraph 3.4 as all the members of the management board have the essential competences needed for the execution of the assigned duties and are responsible for the management of the main production processes (technical, raw materials planning, and sales coordination).

The company is collecting and disclosing all the information about the member of collegial body, their professional education, qualification, interest conflicts in compliance with the recommendations of the paragraph 3.2. Information is disclosed in periodical reports. Members of the board are constantly participating in various courses and seminars during which they are informed about essential changes in the law regulating Company's activities. In addition to that, reports of board members' business trips are disclosed according to internal Company's rules.

The Company is not meeting the recommendations of the article 3.6 as one of the members of the management board can not be held as an independent member according to the paragraph 3.7 – Company's management board member is a controlling shareholder of the Company. The board does not receive a separate salary, they are compensated as Company's employees.

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Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

The Company confirms that partially meets the requirements of the requirements of the principle V.

The management board analyzes, evaluates annual financial accounts and presents it to the general shareholder meeting.

The members of the management board did participate in the board meeting and devoted sufficient amount of time for the assigned duties.

The company is meeting the recommendations of the paragraphs 4.7-4.14 as in February 2006 the board has formed the Nomination and remuneration committee and signed its statute.

The main goal of the Nomination and remuneration committee – provide recommendations for the bodies or persons of the Company who are responsible for nomination and election of management bodies members and executive employees and to ensure transparent policy and principles of salaries for management bodies and executive employees. The committee is providing support for the management board on: (i) election and nomination of the director or other executive officers, and (ii) on the determination of the salary size for the members of the board, director and other executive employees.

In March 2006 management board of the Company has formed Audit committee and signed its statute.

The main goal of the Audit committee is the supervision of the Company's financial audit process and presentation of the accounting and financial information for the interested parties. The committee assists Company's management board on the issues of: (i) the quality and coherence of financial, accounting and other related documents, (ii) qualification, independence and appropriateness of an independent auditor, and (iii) execution of internal control.

Principle V: The working procedure of the company's collegial bodies

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

The Company confirms that it partially meets the requirements and recommendations of the principle V. the meeting of the Company's collegial management body (management body) are taking place on pre-set frequency and according to the pre-designed work plans. Each member of the body is able to review the material of each meeting before the day of the meeting. When informing about the meetings, material to be discussed is provided in advance. Usually the work plan of the meeting is not being changed, unless during the meeting, when all the members of the board are participating, the different decision is taken and there is enough information for the effective discussion of an additional issue. Issues to be discussed during the board meeting as the as the reports on the decisions taken are prepared by the director of the company, members of the boars, special groups assigned by the board, which can include addition specialist-non-employees of the Company.

Recommendations of the paragraph 5.4 can not be applied to the Company as the supervisory collegial body is not being formed.

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

The Company confirms that partially meets the requirement and recommendations of the principle VI. Equity of the company is formed from common stock shares, which provides the owner with the same material and non-material rights.

The place and date of the company's meeting is set in a way that ensures equal participation possibilities for each shareholder. Each shareholder can participate personally or delegate his/her rights to another person and require in-advance voting on the issues announced on the work plan of the meeting. In such a case in-advance voting bulletins are formed.

Company is presenting the reports of general meeting decisions on the Company's webpage in compliance with relevant regulations and laws.

Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

Company confirms that it meets all the requirements and recommendations of the principle VII.

Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

The Company is not meeting the requirements of this principles regarding public disclosure of the salary policy report. Company acts in accordance of its policy that salaries and bonuses system as well as other transactions related to employment are not disclosed publicly and considered as commercial secret.

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

Company confirms that it meets all the requirements and recommendations of the principle IX.

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

Company confirms that it meets all the requirements and recommendations of the principle X.

Principle XI: The selection of the company's auditor

The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.

The Company confirms that it meets the requirements and recommendations of the principle XI. The management board of the Company suggests the candidature of the independent auditing company for the general shareholder meeting; auditing company is confirmed by the general shareholder meeting, thus it can be state that Company meets the recommendation of the paragraph 11.2. The candidature of the auditing company and of a specific auditor has been approved by the Securities exchange commission on 3 January 2007.

Chairman of the Board Gintaras Bertašius