ŽEMAITIJOS PIENAS AB

CONSOLIDATED FINANCIAL STATEMENT OF I QUARTER OF 2007

(in LTL'000 unless otherwise specified)

Balance Sheet

	Group	
	31 March 2007	**31 December 2006**
ASSETS		
Non-current assets		
Non-current intangible assets	459	518
Non-current tangible assets	45,007	46,833
Investment assets	5,195	5,307
Investments for sale	14	14
Investments in subsidiaries	-	-
Long-term receivables	2,703	1,906
Deferred tax asset	298	298
Total non-current assets:	**53,676**	**54,876**
Current assets		
Inventories	34,922	39,077
Prepayments	410	859
Trade accounts receivable	22,709	31,549
Receivables from subsidiaries	-	-
Receivables from other affiliated parties	16,641	15,378
Other accounts receivable	12,077	5,544
Cash and cash equivalents	20,778	14,534
Total current assets:	**107,537**	**106,941**
Total assets:	**161,213**	**161,817**

(in LTL'000 unless otherwise specified)

Balance sheet (continued)

	Group	
	31 March 2007	**31 December 2006**
EQUITY AND LIABILITIES		
Equity, referable to company's shareholders		
Authorised	48,375	48,375
Share premium	-	-
Legal reserve	4,838	4,838
Other reserves	-	-
Retained earnings	20,613	19,400
	78,826	72,613
Minority share	**1,037**	**1,037**
Total equity	**74,863**	**73,650**
Long-term liabilities		
Sponsorship received	1,605	2,073
Long-term loans	24,404	23,173
Long-term loans from affiliated parties	-	-
Leases obligations	4,599	4,599
Other long-term liabilities	124	124
Total long-term liabilities	**30,732**	**29,969**
Short-term liabilities		
Current portion of short-term debts	24,404	22,913
Current portion of short-term leases obligations	1,240	1,727
Trade debts	20,062	22,536
Amounts payable to subsidiaries	-	-
Other amounts payable to affiliated parties	4,919	6,856
Payable corporate profit tax	175	763
Other short-term amounts payable	4,818	3,403
Total equity and liabilities	**55,618**	**58,198**

Managing Director	Algirdas Pažemeckas	*/Signature/*	10 May 2007
Chief Accountant	Dalia Gecienė	*/Signature/*	10 May 2007

(in LTL'000 unless otherwise specified)

Profit and loss account

	Group	
	31 March 2007	**31 March 2006**
Sales income	100,312	88,345
Cost of sales	(84,035)	(74,747)
Gross profit	**16,277**	**13,598**
Operating costs	(15,694)	(13,565)
Other operating costs – net result	1,261	1,568
Operating profit	1,844	1,601
Financing and investing activities (expenses) – net result	(629)	(47)
Profit before tax	**1,215**	**1,554**
Corporate profit tax	(2)	(391)
Net profit	**1,213**	**1,163**

Managing Director	Algirdas Pažemeckas	*/Signature/*	10 May 2007
Chief Accountant	Dalia Gecienė	*/Signature/*	10 May 2007

(in LTL'000 unless otherwise specified)

Cash flow statement

	Group	
	31 March 2007	**31 March 2006**
Cash flows from operating activities		
Net profit	1,213	1,163
Restore of non-monetary costs (income)		
Depreciation and amortization	4,120	3,683
Amortization of sponsorship received	-388	-
(Profit) on non-current tangible assets sales / loss and write-offs of non-current tangible and intangible assets	-12	444
Elimination of result of financial activities	540	-
Decrease in value of accounts receivable	15	-
Corporate profit tax costs	-	-
Decrease (restore) in realizable value of inventories	-	-
Indemnification	-	5,338
Other non-monetary costs	-	-
	5,488	10,628
Changes of working capital:		
Decrease (increase) in inventories	4,155	3,141
Accounts receivable (increase)	-364	-2,875
Decrease in advance payments and other current assets (increase)	-	63
Decrease in other accounts receivable	-	-
Increase in trade debts and amounts payable to affiliated parties and subsidiaries (decrease)	-4,411	400
(Paid) corporate profit tax		-
Increase (decrease) in other amounts payable and short-term liabilities	2,722	1,633
Net cash flows from main activities	**7,590**	**12,990**
Cash flows from investing activities		
(Acquisition)of non-current tangible and intangible assets	-2,019	-2,684
Disposition of non-current tangible assets	123	974
Investment sales	-	-
Loan retrieval	1,203	913
(Grant of) long-term loans	-839	-2,392

(in LTL'000 unless otherwise specified)

Cash flow statement (continued)

	Group	
	31 March 2007	**31 March 2006**
Received interest	39	21
Net cash flows from investing activities	-1,493	-3,168
Cash flows from financing activities		
Dividends (paid)	-10	-
Cash (transferred) during reorganization	-	-
Loans received	2,226	2,438
Loans (returned)	-549	-549
Leasing (financial leasing) (payments)	-487	-476
Other income from financial activities	-424	-407
Interest (paid)	-609	-515
Net cash flows from financing activities	**147**	**491**
Net increase (decrease) in cash flows	**6,244**	**10,313**
Cash and cash equivalents at the beginning of period	**14,534**	**13,097**
Cash and cash equivalents at the end of period	**20,778**	**23,410**

Managing Director	Algirdas Pažemeckas	*/Signature/*	10 May 2007
Chief Accountant	Dalia Gecienė	*/Signature/*	10 May 2007

(in LTL'000 unless otherwise specified)

Statement in changes of equity capital

Group	Referable to company's shareholders							Minority share	Total
	Authorized capital	Share premiums	Mandatory reserves	Other reserves	Own shares	Retained profit	Total		
Balance as of 31 December 2005	**48,375**	**-**	**3,700**	**-**	**-**	**10,541**	**62,616**	**1,037**	**63, 653**
Approved dividend	-	-	-	-	-	(2,903)	(2,903)	-	(2,903)
Transferred to mandatory reserves	-	-	1,138	-	-	(1,138)	-	-	-
Net annual profit	-	-	-	-	-	12,900	12,900	-	12,900
Balance as of 31 December 2006	**48,375**	**-**	**4,838**	**-**	**-**	**19,400**	**72,613**	**1,037**	**73,650**
Net annual profit	-	-	-	-	-	1,213	-	-	-
Balance as of 31 March 2007	**48,375**	**-**	**4,838**	**-**	**-**	**20,613**	**73,826**	**1,037**	**74,863**

Managing Director	Algirdas Pažemeckas	*/Signature/*	10 May 2007
Chief Accountant	Dalia Gecienė	*/Signature/*	10 May 2007

(in LTL‘000 unless otherwise specified)

Explanatory Note

1. Background

As of 31 December 2006 and 31 March 2007 the Company‘s authorised capital amounted to LTL 48,375,000, consisting of 4,837,500 ordinary registered shares of LTL 10 par value each. All the shares have been issued, subscribed and paid for. The Company‘s subsidiaries did not hold shares of the Company and the Company had no own shares as of 31 March 2006 and 31 March 2007.

As of 31 March 2007 the Group consisted of Žemaitijos Pienas AB and its subsidiaries:

Subsidiary	Registered office address	Share of capital controlled by the Group	Consolidated share	Amount of investment (at acquisition cost)	Accounting year profit (loss)	Equity	Core business
Telšių Autoservisas AB	Mažeikių St. 4, Telšiai, Lietuva	37.49%	100%	393	1	(109)	Vehicle repairs
Žemaitijos Pieno Žaliava UAB	Sedos St. 35, Telšiai, Lietuva	100.00%	100%	1000	(10)	727	Milk collection services
Tarpučių Pienas ŽŪK	Klaipėdos St. 3, Šilutė, Lietuva	10.08%	100%	50	13	458	Milk collection services
Sodžiaus Pienas ŽŪK	Šilalės St. 35, Laukuva, Lietuva	15.09%	100%	105	141	1305	Milk collection services

In accordance with the Law on Agricultural Companies, ownership of a company is determined by the percentage share of sales, therefore, Tarpučių Pienas ŽŪK and Sodžiaus Pienas ŽŪK are considered to be subsidiaries as their sales to the Company amount to nearly 100 per cent. Telšių Autoservisas AB is considered to be a subsidiary because its business activities are controlled by Žemaitijos Pienas AB, even though holding less than 50 per cent of the shares in Telšių Autoservisas AB. In 2006 and QI of 2007 Telšių Autoservisas AB conducted no business activities.

As of 31 March 2007 the Group had 1,952 employees (1922 as of 31 March 2006).

2. Accounting Principles

The main accounting principles applied in the drawing up of the Group financial statements as of 31 March 2007 are as follows:

2.1. Basis of Preparation

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

<u>Currency of financial statements</u>

All the amounts in these financial statements have been disclosed in Litas – the national currency of the Republic of Lithuania. Litas is pegged to Euro at the ratio LTL 3.4528: EUR 1, while the Litas exchange rate in respect to other currencies is established by the Bank of Lithuania on a daily basis.

2.2. Consolidation Principles

The consolidated financial statement of the Group comprises Žemaitijos pienas AB and companies controlled by it. Usually the company is controlled when the Group directly or indirectly holds more than 50 per cent of authorized capital granting right to vote and/or when it can control financial and ordinary activities and thus gain benefit from the activities of this company.

The share of equity and the share of net profit assigned to the minority shareholders is disclosed separately from the respective shares of the Company‘s shareholders in consolidated balance sheets, statement of equity and consolidated profit (loss) accounts.

The purchase method is employed in the accounting for acquired companies.

For consolidation purposes all intra-transactions, balances and unrealised profit/loss of the companies are eliminated.

For the purposes of drawing up of consolidated financial statements, the same accounting principles have been applied to similar transactions and other events occurring under similar circumstances.

2.3. Intangible Assets

Intangible assets are initially recognised at acquisition cost. Intangible assets are recognised if it is probable that the Group will receive economic benefits related to such assets and provided that reliable valuation of the assets can be made. The Group has no intangible assets whose useful economic life would be unlimited, therefore, after initial recognition intangible assets are accounted for at acquisition cost less accumulated amortisation and accrued losses on reduction in value if any. Intangible assets are amortised by the straight-line amortisation method over the estimated useful economic life.

2.4. Non-current Tangible Assets

Non-current tangible assets are accounted for at acquisition cost, which excludes routine maintenance costs, less accumulated depreciation and losses on reduction in value. The acquisition cost includes costs of replacement of parts of non-current tangible assets after they are incurred, provided that such costs comply with the asset recognition criteria.

Depreciation is calculated by the straight-line method over the following periods of useful economic life:

Buildings	20 - 40 years
Machinery & equipment	5 years
Vehicles & other equipment	4 - 10 years

Book value, useful economic life and depreciation methods are reviewed at the end of each accounting year and corrected as necessary.

Non-current tangible assets are written off upon sale or when economic benefits are no longer expected from its use or sale. Any profit or loss arising from the asset write-off (calculated as the difference between the net sales income and book value) is included in the profit and loss account for the year in which the write-off took place.

2.5. Investment Assets

Investment assets of the Group consist of land and buildings, which are leased and from which lease income is earned, and which are not used for the purposes of core activities of the Group. Investment assets are accounted for at acquisition cost less accumulated depreciation and estimated losses on reduction in value.

Depreciation is calculated by the straight-line method over useful economic life of 20 to 40 years.

Transfers to/from investment assets are only made when the purpose of an asset is changed.

2.6. Inventories

Inventories are accounted for at cost or net realisable value, whichever is lower, less reduction in value for old and slowly moving inventories. Cost is calculated by the FIFO method. The cost of finished products and production in progress includes both non-current and variable overheads provided that production volumes are normal. Those inventories which cannot be realised are written off.

2.7. Cash and Cash Equivalents

Cash consists of cash in bank and cash at hand. Cash equivalents are short-term investments of high liquidity, readily convertible to a known amount of money. Maturity of such investments is up to three months, while the risk of changes in value is insignificant.

In the Cash Flow Statement, Cash and Cash Equivalents consist of cash at hand and money in current accounts.

2.8. Financial Assets and Financial Liabilities

The Group recognises financial assets in its balance sheets only after the Group becomes party to a liability under an agreement.

Investments

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets are classified as financial assets measures at fair value in profit and loss account, financial assets held to maturity, loans provided, accounts receivable and financial assets held for sale. All investment acquisitions and sales are recognised as of the date of purchase/sale. Investments are initially accounted for at acquisition cost, which is equal to the fair value of the amount paid including transaction costs (with the exception of financial assets measured at fair value in the profit and loss account).

Accounts Receivable and Loans Provided

Loans and accounts receivable (which are not financial derivatives) represent financial assets with fixed payments or payments calculated by the pre-set method which are not traded in active market. Such assets are accounted for at amortised costs by the effective interest rate method. Profit and loss are accounted for in the profit and loss account by amortising or writing the loans and accounts receivable off or by accounting for reduction in value thereof.

Debts

Borrowing costs are recognised as costs after they are incurred.

Debts are initially recognised at the fair value of the amount received less transaction costs. Later they are accounted for at amortised cost, while the difference between the amount received and the amount to be paid during the set term is included in the profit or loss for the period.

2.9. Leasing (Financial Lease) and Operating Lease

A decision or agreement is either lease agreement at beginning date, or when the fulfilment of the agreement is dependent upon specific assets, or when the right to use an asset transferred is transferred under an agreement.

2.10. Grants

Grants received to make up expenses or non-received income in accounting or previous period as well as any other grants that are not classified as asset-related grants are regarded as grants related to income. Income-related grants are recognised to the extent of the amount used and to the extent to which costs were incurred in accounting period or to which income, for the making up of which the grant has been intended, is not received.

The unused balance of a grant is shown in the balance sheet line Sponsorship Received.

2.11. Corporate Profit Tax

Corporate profit tax is calculated in accordance with the legal acts of the Republic of Lithuania.

In 2007, a standard corporate profit tax rate (15%) will remain. Since 1 January 2007 a social tax rate of 3% has been in effect; the calculation of the tax is based on the principles of calculation of corporate profit tax.

2.12. Recognition of Income

Income is recognised when it is probable that the Company will receive economic benefits from a transaction and when a reliable assessment of the income amount is possible. Sales are accounted for upon deduction of VAT and any discounts granted.

Income from goods sales is recognised upon delivery of the goods and upon transfer of risks and benefits from the title to the goods.

In the consolidated profit and loss account, intra-group sales have been eliminated.

2.13. Recognition of Costs

Costs are recognised by the principles of accrual and comparison in the accounting period in which related income has been earned irrespective of when the money was spent. In cases when costs incurred in the accounting period cannot be related directly to the earning of specific income and they will not give rise to income in future period, they are recognised as costs in the period in which they were incurred.

The size of costs is usually measured by the amount of money paid or payable excluding VAT. In cases where a longer payment period has been provided for and no interest has been identified, the size of costs is measured by discounting the amount payable at market interest rate.

2.14. Foreign Currencies

Transactions expressed in foreign currencies are accounted for at the currency exchange rate in effect as of the transaction date. Profit (loss) on such transactions and on balances of assets and liabilities expressed in foreign currencies as of revaluation balance sheet date are accounted for in the profit and loss account. Revaluation of such balances is made according to the currency exchange rate as of the end of accounting period.

2.15. Guarantees

Financial guarantees are initially measured at fair value (amount of the premium received) in Other Liabilities. During later valuations, the Group's liability is measured at the amortised premium and the costs necessary to cover financial liabilities arising from the guarantees provided, whichever is higher.

Any guarantee-related increase in liabilities is accounted for in the costs of reduction in value in the profit and loss account. Any premium received is recognised in financial income in the profit and loss account by the straight-line method over the guarantee period.

Guarantees represent an irrevocable security that the Group will settle accounts with third parties on the client's behalf in case if the client fails discharge its liabilities to third parties.

2.16. Set-Offs

For the purposes of financial statements, assets and liabilities as well as income and costs are not set off, with the exception of cases where such set off is required by a specific standard.

3. Information by Segments

For management purposes, business activities of the Group are organised as a single key segment – production and sale of dairy products (primary segment). Sales by geographic segments (secondary segments) are shown below:

(in LTL'000 unless otherwise specified)

	Group	
	31 March 2007	**31 March 2006**
Sales		
Lithuania	55,196	52,743
Other Baltic States & CIS countries	27,680	18,947
Other European countries	16,560	16,223
USA	4	186
Other	872	246
	100,312	**88,345**

4. Inventories

	Group	
	31 March 2007	**31 March 2006**
Raw materials	12,185	13,692
Finished products & production in progress	21,512	30,337
Goods for resale	1,225	1,438
	34,922	45,467