AB „ŽEMAITIJOS PIENAS"

CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2008

Balance sheets

	Notes	Group	
		As of 31 March 2008	As of 31 December 2007
ASSETS			
Non-current assets			
Intangible assets		500	571
Property, plant and equipment		51.044	44.226
Investment property		4.745	4.857
Available – for – sale investments		14	14
Investments into subsidiaries		-	-
Non-current receivables		2.591	2.191
Deferred income tax asset		653	653
Total non-current assets		**59.547**	**52.512**
Current assets			
Inventories	4	41.406	46.289
Prepayments		7.721	7.867
Trade receivables		26.218	26.882
Receivables from subsidiaries		-	-
Receivables from other related parties		23.348	12.563
Other receivables		4.956	6.717
Cash and cash equivalents		10.349	13.053
Total current assets		**113.998**	**113.371**
Total assets		**173.545**	**165.883**

Balance sheets (cont'd)

	Notes	Group As of 31 March 2008	As of 31 December 2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity attributable to equity holders of the parent			
Share capital		48.375	48.375
Share premium account		-	-
Legal reserve		4.838	4.838
Other reserves		-	-
Retained earnings		37.568	42.942
		90.781	96.155
Minority interest		**1.037**	**1.037**
Total shareholders' equity		**91.818**	**97.192**
Non-current liabilities			
Grants received		2.521	2.999
Non-current loans		31.126	20.631
Long-term loans from related parties		-	-
Financial lease obligations		5.553	5.553
Other current liabilities		-	-
Total non-current liabilities		**39.200**	**29.183**
Current liabilities			
Current portion of non-current loans		2.899	2.899
Current portion of non-current financial lease obligations		1.689	2.316
Trade payables		23.871	21.703
Payables to subsidiaries		-	-
Payables to other related parties		2.580	2.960
Income tax payable		3.943	4.648
Other current liabilities		7.545	4.982
Total current liabilities		**42.527**	**39.508**
Total liabilities and shareholders' equity		**173.545**	**165.883**

The accompanying notes are an integral part of these financial statements.

General Manager		Algirdas Pažemeckas				10 May 2008
Chief Accountant		Dalia Gecienė				10 May 2008

Income statements

	Notes	Group As of 31 March 2008	Group As of 31 March 2007
Sales	3	113.397	100.312
Cost of sales		(98.979)	(84.035)
Gross profit		**14.418**	**16.277**
Operating expenses		(20.869)	(15.694)
Other operating income, net		1.472	1.261
Profit from operations		**(4.979)**	**1.844**
Financial and investment activities		(392)	(629)
Profit before income tax		**(5.371)**	**1.215**
Income tax		(3)	(2)
Net profit		**(5.374)**	**1.213**

The accompanying notes are an integral part of these financial statements.

General Manager		Algirdas Pažemeckas				10 May 2008
Chief Accountant		Dalia Gecienė				10 May 2008

Statements of changes in equity

Group	Attributable to shareholders of the Company							
	Share capital	Share surplus	Legal reserve	Other reserves	Retained earnings	Total	Minority interest	Total
Balance as of 31 December 2006	**48.375**	**-**	**4.838**	**-**	**19.400**	**72.613**	**1.037**	**73.650**
Dividends declared	-	-	-	-	(968)	(968)	-	(968)
Net profit for the year	-	-	-	-	24.510	24.510	-	24.510
Balance as of 31 December 2007	**48.375**	**-**	**4.838**	**-**	**42.942**	**96.155**	**1.037**	**97.192**
Net profit for the year	-	-	(5.374)	-	-	-		
Balance as of 31 March 2008	**48.375**	**4.838**	**37.568**	**90.781**	**1.037**	**91.818**	**1.037**	**97.192**

The accompanying notes are an integral part of these financial statements.

General Manager		Algirdas Pažemeckas				10 May 2008
Chief Accountant		Dalia Gecienė				10 May 2008

Cash flow statements

	Group	
	As of 31 March 2008	As of 31 March 2007
Cash flows from (to) operating activities		
Net profit	-5.374	1.213
Adjustments for non-cash items:		
Depreciation and amortization	3.824	4.120
Amortization of grants received	-478	-388
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets	-	-12
Result from financial and investment activities	395	540
Allowance for receivables	401	15
Income tax expenses		
Other non-cash (income) expenses		
	-1232	5.488
Changes in working capital:		
Decrease in inventories	4.883	4.155
(Increase of) Receivables	2.025	-364
Decrease in prepayments and other current assets	-6.379	-
Increase in trade payables, payables to related parties and payables to subsidiaries	-8.619	-4.411
Income tax (paid)		
Increase (decrease) in other current liabilities	1.974	2.722
Net cash flows from operating activities	**-7.348**	**7.590**
Cash flows from (to) investing activities		
(Acquisition) of property, plant and equipment and intangible assets	-3.979	-2.019
Disposal of property, plant and equipment	29	123
Proceeds from sales of investments		
Repayment of loans granted	987	1.203
Loans (granted)	-1.388	-839
Interest received	32	39
Net cash flows (to) investing activities	**-4.319**	**-1.493**

(Cont'd on the next page)

Cash flow statements (cont'd)

	Group	
	As of 31 March 2008	As of 31 March 2007
Cash flows from (to) financing activities		
Dividends (paid)	-3	-10
Cash, (transferred) during reorganization	-	-
Loans received	10.495	2.226
(Repayment) of loans	-	-549
Financial lease (payments)	-640	-487
Sponsorship Received	-	-
Other revenue from financial activities	-417	-424
Interest (paid)	-472	-609
Net cash flows (to) financial activities	**8.963**	**147**
Net increase (decrease) in cash and cash equivalents	**-2.704**	**6.244**
Cash and cash equivalents at the beginning of the year	**13.053**	**14.534**
Cash and cash equivalents at the end of the year	**10.349**	**20.778**

The accompanying notes are an integral part of these financial statements.

General Manager		Algirdas Pažemeckas				10 May 2008
Chief Accountant		Dalia Gecienė				10 May 2008

Notes to the financial statements

1.General information

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company's shares are traded on the Current List of the Vilniaus Stock Exchange.

As of 31 March 2008 and 2007 the share capital of the Company was LTL 48.375 thousand, which consisted of 4.837.500 ordinary shares with a normal value of LTL 10 each. All the shares of the Company are issued, subscribed and fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2007 and 31 March 2008, the Company also had no its own shares.

As of 31 March 2008 the Group consisted of AB Žemaitijos pienas and the following subsidiaries (hereinafter referred to as "the Group")

Company	Registration address	Ownership of the Group	Percentage in consolida-tion	Cost of investment	Profit (loss) for the year	Total equity holding	Main activities
AB Telšių autoservisas	Mažeikių Str. 4, Telšiai, Lithuania	37,49%	100%	393	(76)	(33)	Repair of vehicles
UAB Žemaiti-jos pieno žaliava	Sedos Str. 35, Telšiai, Lithuania	100,00%	100%	1.000	(9)	718	Milk collection services
ŽŪK Tarpu-čių pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10,08%	100%	50	24	482	Milk collection services
ŽŪK So-džiaus pienas	Šilalės Str. 35, Laukuva, Lithuania	15,09%	100%	105	(1)	1.305	Milk collection services

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentages of sales to a certain company, therefore since ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus pienas are performing nearly 100% of their sales to the Company they are considered subsidiaries. AB Telšių Autoservisas is considered a subsidiary because AB Žemaitijos Pienas controls its activities, although it owns less than 50% of the shares. AB Telšių Autoservisas and UAB Žemaitijos pieno žaliava had no active operations in the year ended 31 December 2007 and in the three months ended 31 March 2007.

As of 31 March 2008, the number of employees of the Group was 1792 (as of 31 March 2007 – 1952).

2. Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for the three months ended 31 March 2008 are as follows:

2.1. Basis of preparation

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

2.2. Measurement and presentation currency

The amounts shown in these financial statements are measured in the local currency of the Republic of Lithuania, litas (LTL). Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Principles of consolidation

The consolidates financial statements of the Group include AB Žemaitijos pienas and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Intercompany balances and transactions, including unrealized profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

2.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. The Company and the Group do not have any intangible assets with indefinite useful life, therefore after initial recognition intangible recognition intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. Amortisation expenses of intangible assets are included into operating expenses.

2.5. Property , plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

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

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2.6. Investment property

Investment property of the Group consist of investments in land and buildings that are held to earn rentals, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment loses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20-40 years.

Transfers to or from investment property are made when and only when there is an evidence of a change in use.

2.7. Inventories

Inventories are valued at the lower of cost or net realizable value, after impairment evalution for obsolete and slow moving items. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory is fully written-off.

2.8. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to know amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits.

2.9. Financial assets and financial liabilities

The Group and the Company recognize financial asset on its balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

Investments

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Receivables and loans granted

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans received

Loan costs are expensed as incurred.

Loans are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the loans.

2.10. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2.11. Grants

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in caption "Grants received" on the balance sheet.

2.12. Income tax

Income tax is calculated based on the Lithuanian tax legislation

On the year 2008 the income tax applied to the companies in the Republic of Lithuania is 15%.

2.13. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risk and rewards has been completed.

Sales between the Group companies are eliminated in the consolidated income statement.

2.14. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

2.15. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the transaction of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

2.16. Guarantees

Financial guarantees provided by the Group are initially recognized in the financial statements at fair value, under other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognized in the income statement in financial income on a straight-line basis over the life of the guarantee.

Guarantees represent irrevocable assurances that the Group will make payments in the event when a customer cannot meet its obligations to third parties

2.17.Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when separate standard specifically require such offsetting.

3. Segment information

For management purposes the activities of the Group and Company are organized as one major segment – production and selling of the dairy products (primary segment).Financial information on geographical segments (secondary segment) is presented below:

	Group	
	As of 31 March 2008	As of 31 March 2007
Sales		
Lithuania	62.450	55.196
Other Baltic States and CIS countries	27.808	27.680
Other European countries	22.203	16.560
USA	-	4
Other	936	872
	113.397	**100.312**

4. Inventories

	Group	
	As of 31 March 2008	As of 31 March 2007
Raw materials	8.489	12.185
Finished goods and work in process	27.552	21.512
Goods for resale	5.365	1.225
	41.406	**34.922**

5. Loans' repayment terms:

	31 March 2008
2008 m.	2.899
2009 m.	18.775
2010 m.	1.670
2011 m.	323
2012 m.	10.358
Total Loans on 31 March 2008	**34.025**

31 March 2008, outstanding loans of the Group in national and foreign currencies (thous. LTL):

	31 March 2008
Loan currency:	
Euro	18.025
Litas	16.000
	34.025

6. Subsequent events

Subsequent events was not after was make consolidated financial statements.

Žemaitijos pienas AB
Approval of responsible persons

10 May 2008
Telšiai

Regarding drafting of financial statement for the year ended 31 March 2007

We hereby confirm that the Interim Financial Statements prepared according to applicable standards of accounting does reflect the real situation and represent the true and correct corporate assets, liabilities, financial standing, profit or loss.

We also confirm that the Interim Report does represent the true and correct review of business development and activities.

General Manager	Algirdas Pažemeckas
Chief Accountant	Dalia Gecienė