AB ŽEMAITIJOS PIENAS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of AB Žemaitijos Pienas

We have audited the accompanying financial statements of AB Žemaitijos Pienas, a private limited liability company registered in the Republic of Lithuania (the "Company"), and consolidated financial statements of AB Žemaitijos Pienas and its subsidiaries AB Telšių Autoservisas, UAB Žemaitijos Pieno Žaliava, ŽŪK Tarpučių Pienas, ŽŪK Sodžiaus Pienas ("the Group"), which comprise the balance sheets as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Žemaitijos Pienas and the Group as of 31 December 2006, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

Jonas Akelis Auditor's licence No. 000003	Ramūnas Bartašius Auditor's licence No. 000362

The audit was completed on 23 February 2007.

Balance sheets

		Group		Company	
	Notes	As of 31 December 2006	As of 31 December 2005	As of 31 December 2006	As of 31 December 2005
ASSETS					
Non-current assets					
Intangible assets	4	518	424	517	420
Property, plant and equipment	5	46,833	48,459	44,280	46,853
Investment property	6	5,307	-	6,921	-
Available-for-sale investments		14	20	14	20
Investments into subsidiaries	1	-	-	1,000	1,000
Non-current receivables	7	1,906	2,543	1,906	2,543
Deferred income tax asset	21	298	197	298	197
Total non-current assets		**54,876**	**51,643**	**54,936**	**51,033**
Current assets					
Inventories	8	39,077	48,608	39,076	48,601
Prepayments		859	1,259	859	1,257
Trade receivables	9	31,549	23,145	31,549	23,131
Receivables from subsidiaries		-	-	-	527
Receivables from other related parties	26	15,378	7,787	15,378	7,633
Other receivables	10	5,544	8,762	5,496	8,753
Cash and cash equivalents	11	14,534	13,097	14,140	12,652
Total current assets		**106,941**	**102,658**	**106,498**	**102,554**
Total assets		**161,817**	**154,301**	**161,434**	**153,587**

(cont'd on the next page)

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

Balance sheets (cont'd)

		Group		Company	
	Notes	**As of 31 December 2006**	**As of 31 December 2005**	**As of 31 December 2006**	**As of 31 December 2005**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Equity attributable to equity holders of the parent					
Share capital	1, 12	48,375	48,375	48,375	48,375
Legal reserve	12	4,838	3,700	4,838	3,700
Retained earnings		19,400	10,541	19,380	10,837
		72,613	62,616	72,593	62,912
Minority interest		**1,037**	**1,037**	**-**	**-**
Total shareholders' equity		**73,650**	**63,653**	**72,593**	**62,912**
Non-current liabilities					
Grants received	13	2,073	3,941	1,724	3,277
Non-current loans	14	23,173	26,214	23,173	26,214
Financial lease obligations	15	4,599	3,820	4,599	3,820
Other non-current liabilities		124	91	124	91
Total non-current liabilities		**29,969**	**34,066**	**29,620**	**33,402**
Current liabilities					
Current portion of non-current loans	14	22,913	23,497	22,913	23,497
Current portion of non-current financial lease obligations	15	1,727	1,615	1,727	1,615
Trade payables		22,536	18,393	21,763	17,623
Payables to subsidiaries		-	-	4,387	4,165
Payables to other related parties	26	6,856	9,208	4,739	7,116
Income tax payable		763	465	738	452
Other current liabilities	17	3,403	3,404	2,954	2,805
Total current liabilities		**58,198**	**56,582**	**59,221**	**57,273**
Total liabilities and shareholders' equity		**161,817**	**154,301**	**161,434**	**153,587**

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

General Manager	Algirdas Pažemeckas		23 February 2007
Chief Accountant	Dalia Gecienė		23 February 2007

Income statements

		Group		Company	
	Notes	**2006**	**2005**	**2006**	**2005**
Sales	3	383,258	369,258	383,240	369,153
Cost of sales		(310,818)	(306,068)	(311,303)	(306,581)
Gross profit		**72,440**	**63,190**	**71,937**	**62,572**
Operating expenses	18	(61,897)	(57,666)	(61,856)	(57,701)
Other operating income, net	19	7,610	7,175	7,701	7,373
Profit from operations		**18,153**	**12,699**	**17,782**	**12,244**
Income from financial and investment activities	20	378	2,108	377	2,108
(Expenses) from financial and investment activities	20	(2,385)	(2,589)	(2,362)	(2,588)
Profit before income tax		**16,146**	**12,218**	**15,797**	**11,764**
Income tax	21	(3,246)	(1,937)	(3,213)	(1,925)
Net profit		**12,900**	**10,281**	**12,584**	**9,839**
Attributable to:					
Shareholders of the Company		**12,900**	**10,281**	**12,584**	**9,839**
Basic and diluted earnings per share (LTL)	22	2.67	2.13		

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

General Manager	Algirdas Pažemeckas		23 February 2007
Chief Accountant	Dalia Gecienė		23 February 2007

Statements of changes in equity

Group		Attributable to shareholders of the Company							
	Notes	**Share capital**	**Share surplus**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
Balance as of 31 December 2004		**37,000**	**2,760**	**3,700**	**3,540**	**6,075**	**53,075**	**1,037**	**54,112**
Dividends declared	23	-	-	-	-	(740)	(740)	-	(740)
Transfer to share capital	12	11,375	(2,760)	-	(3,540)	(5,075)	-	-	-
Net profit for the year		-	-	-	-	10,281	10,281	-	10,281
Balance as of 31 December 2005		**48,375**	**-**	**3,700**	**-**	**10,541**	**62,616**	**1,037**	**63,653**
Dividends declared	23	-	-	-	-	(2,903)	(2,903)	-	(2,903)
Transfer to legal reserve	12	-	-	1,138	-	(1,138)	-	-	-
Net profit for the year		-	-	-	-	12,900	12,900	-	12,900
Balance as of 31 December 2006		**48,375**	**-**	**4,838**	**-**	**19,400**	**72,613**	**1,037**	**73,650**

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Share surplus	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 31 December 2004		**37,000**	**2,760**	**3,700**	**3,540**	**6,813**	**53,813**
Dividends declared	23	-	-	-	-	(740)	(740)
Transfer to share capital	12	11,375	(2,760)	-	(3,540)	(5,075)	-
Net profit for the year		-	-	-	-	9,839	9,839
Balance as of 31 December 2005		**48,375**	**-**	**3,700**	**-**	**10,837**	**62,912**
Dividends declared	23	-	-	-	-	(2,903)	(2,903)
Transfer to legal reserve	12	-	-	1,138	-	(1,138)	-
Net profit for the year		-	-	-	-	12,584	12,584
Balance as of 31 December 2006		**48,375**	**-**	**4,838**	**-**	**19,380**	**72,593**

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

General Manager	Algirdas Pažemeckas		23 February 2007
Chief Accountant	Dalia Gecienė		23 February 2007

Cash flow statements

		Group		Company	
	Notes	**2006**	**2005**	**2006**	**2005**
Cash flows from (to) operating activities					
Net profit		12,900	10,281	12,584	9,839
Adjustments for non-cash items:					
Depreciation and amortisation		14,674	13,391	14,026	12,733
Amortisation of grants received		(1,868)	(1,893)	(1,553)	(1,554)
(Profit) loss from disposal and write-offs of property, plant and equipment and intangible assets		(502)	(183)	(502)	(183)
Allowance for receivables		(99)	-	(99)	-
Income tax expenses		3,246	1,937	3,213	1,925
(Adjustment) of net realisable value of inventories		-	48	-	45
Compensation on losses incurred	19	-	(5,338)	-	(5,338)
Result from financial and investment activities	20	2,007	481	1,985	480
Other non-cash (income) expenses		(201)	952	(179)	952
		30,157	19,676	29,475	18,899
Changes in working capital:					
Decrease in inventories		9,531	4,124	9,525	4,125
(Increase) in trade receivables, receivable from related parties and receivables from subsidiaries		(15,822)	(17,243)	(15,457)	(15,104)
Decrease in prepayments and other current assets		400	171	398	145
Decrease in other receivables		3,144	716	3,177	727
Increase in trade payables, payables to related parties and payables to subsidiaries		1,791	9,014	1,985	7,532
Income tax (paid)		(2,948)	(2,701)	(2,927)	(2,681)
Increase (decrease) in other current liabilities		100	(747)	234	(912)
Net cash flows from operating activities		**26,353**	**13,010**	**26,410**	**12,731**
Cash flows from (to) investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(11,415)	(8,885)	(11,412)	(8,850)
Disposal of property, plant and equipment		3,449	75	3,424	75
Repayment of loans granted		3,753	3,937	3,753	3,937
Loans (granted)		(3,116)	(3,959)	(3,116)	(3,959)
Interest received		333	245	332	245
Net cash flows (to) investing activities		**(6,996)**	**(8,587)**	**(7,019)**	**(8,552)**

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

Cash flow statements (cont'd)

	Group		Company	
	2006	**2005**	**2006**	**2005**
Cash flows from (to) financing activities				
Dividends (paid)	(2,903)	(712)	(2,903)	(712)
Loans received	-	3,108	-	3,108
(Repayment) of loans	(10,744)	(2,196)	(10,744)	(2,196)
Financial lease (payments)	(1,971)	(2,383)	(1,971)	(2,383)
Interest (paid)	(2,302)	(2,077)	(2,285)	(2,077)
Net cash flows (to) financial activities	**(17,920)**	**(4,260)**	**(17,903)**	**(4,260)**
Net increase (decrease) in cash and cash equivalents	**1,437**	**163**	**1,488**	**(81)**
Cash and cash equivalents at the beginning of the year	**13,097**	**12,934**	**12,652**	**12,733**
Cash and cash equivalents at the end of the year	**14,534**	**13,097**	**14,140**	**12,652**

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

General Manager	Algirdas Pažemeckas		23 February 2007
Chief Accountant	Dalia Gecienė		23 February 2007

Notes to the financial statements

1 General information

AB Žemaitijos Pienas (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Sedos Str. 35, Telšiai,
Lithuania.

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 started its operations in 1984. The Company's shares are traded on the Current List of the Vilnius Stock Exchange.

As of 31 December 2006 and 2005 the share capital of the Company was LTL 48,375 thousand, which consisted of 4,837,500 ordinary shares with a nominal 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 2006 and 31 December 2005, the Company also had no its own shares.

The major shareholder of AB Žemaitijos Pienas is the general manager of the Company Mr. Algirdas Pažemeckas. As of 31 December 2006 Mr. Algirdas Pažemeckas owned 40.74% of the authorised share capital (as of 31 December 2005 – 40.01%). As of 31 December 2006 Skandinavska Ensilda Banken (investment fund) clients had 11.10% (11.29% as of 31 December 2005), related party AB Žemaitijos Pieno Investicija Group (Note 26) – 8.14% (7.76% as of December 2005) of shares and Mrs. Ona Šunokienė – 5.87% (5.87% as of 31 December 2005) of shares. There is no information available if there is any other single shareholder with the shareholding of 5% or more.

According to the legislation of the Republic of Lithuania, the annual report, including the financial statements, prepared by the Management of the Company should be approved by the General Shareholders' meeting. The shareholders hold the power to either approve the annual report or not approve it and request a new annual report to be prepared.

As of 31 December 2006 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 consolidation	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	1	(109)	Repair of vehicles
UAB Žemaitijos Pieno Žaliava	Sedos Str. 35, Telšiai, Lithuania	100.00%	100%	1,000	(10)	727	Milk collection services
ŽŪK Tarpučių Pienas	Klaipėdos Str. 3, Šilutė, Lithuania	10.08%	100%	50	13	458	Milk collection services
ŽŪK Sodžiaus Pienas	Šilalės Str. 35, Laukuva, Lithuania	15.09%	100%	105	141	1,305	Milk collection services

According to the Law of Agricultural Cooperatives the ownership of cooperatives should be determined according to the percentage 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 had no active operations in the years ended 31 December 2006 and 2005.

1 General information (cont'd)

As of 31 December 2006, the number of employees of the Company was 1,799 (as of 31 December 2005 – 2,021). As of 31 December 2006, the number of employees of the Group was 1,941 (as of 31 December 2005 – 2,179).

Business reorganisation

Until April 2006 the Company had retail outlets engaged in AB Žemaitijos Pienas products retail sales. Starting from April 2006, the retail activities were transferred to a related party UAB Žemaitijos Prekyba, a AB Žemaitijos Pieno Investicija Group company. Inventories related to retail activities in the amount of LTL 1,854 thousand and part of property plant and equipment with a net book value of LTL 968 thousand were sold to UAB Žemaitijos Prekyba for LTL 1,854 thousand and LTL 1,031 thousand respectively.

Until April 2006 the Company has purchased manufacturing of cheese services from a related party ABF Šilutės Rambynas. Starting from April 2006, due to the changed form of the transaction, the Company sells milk and acquires finished goods from ABF Šilutės Rambynas.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year ended 31 December 2006 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.

Financial year of the Company coincides with the calendar year.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The accounting policies adopted are consistent with those of the previous financial year except for as follows:
The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IAS 19 Amendment-Employee Benefits;
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates;
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- Amendments to IAS 1 (Capital Disclosures) (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

- IFRIC 12 Service Concession Agreements (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 7 Financial Instruments: Disclosures; IAS 1 amendment Capital Disclosures and IFRS 8 Operating Segments. The Group is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

Measurement and presentation currency

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL). Litas is also a functional currency of the Group and the Company.

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 Accounting principles (cont'd)

2.2. Principles of consolidation

The consolidated 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.

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

In the separate financial statements of the Company the investments into subsidiaries are accounted for at acquisition cost less impairment losses. An assessment of valuation of impairment losses is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

All other investments are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as further disclosed in section 2.8 Financial assets and financial liabilities.

Intercompany balances and transactions, including unrealised 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.

2.3. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised 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 assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Group / Company expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

2.4. 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

2 Accounting principles (cont'd)

2.4. Property, plant and equipment (cont'd)

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised 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 derecognised.

2.5. Investment property

Investment property of the Group and the Company 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 losses.

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.

2.6. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. 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. Unrealisable inventory is fully written-off.

2.7. 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 known 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.

2.8. Financial assets and financial liabilities

The Group and the Company recognise 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.

2 Accounting principles (cont'd)

2.8. Financial assets and financial liabilities (cont'd)

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 recognised on the trade date. When financial assets are recognised 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.

The category financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group / Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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 amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans received

Loan costs are expensed as incurred.

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

2 Accounting principles (cont'd)

2.9. 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease receipts are recognized as an income in the income statement on a straight-line basis over the lease term.

2.10. Grants

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the income statement, a relevant expense account is reduced by the amount of grant amortisation.

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 recognised 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 unutilised grants is shown in caption "Grants received" on the balance sheet.

2 Accounting principles (cont'd)

2.11. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

Till 2005 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 have to pay an additional 4% tax calculated based on the income tax principles, and for the following year starting from 1 January 2007 a 3% tax. After the year 2007 m. 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 only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has 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 recognised in the financial statements.

2.12. Revenue recognition

Revenue is recognised 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 recognised net of VAT and discounts.

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

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

2.13. Expense recognition

Expenses are recognised 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.

2.14. 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 translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances are translated at period-end exchange rates.

2 Accounting principles (cont'd)

2.15. Segments

In these financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Group and the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

2.16. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date and when there is evidence of impairment.

For financial assets carried at amortised cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.17. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by the EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.18. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.19. Subsequent events

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2 Accounting principles (cont'd)

2.20. Guarantees

Financial guarantees provided by the Group are initially recognised 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 amortised 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 recognised 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.

2.21. 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 the Company are organised as one major segment – production and selling of the dairy products (primary segment). Financial information on geographical segments (secondary segment) is presented below:

	Group		Company	
	2006	2005	2006	2005
Sales				
Lithuania	206,253	217,211	206,235	217,066
Other Baltic States and CIS countries	89,108	62,435	89,108	62,435
Other European countries	86,034	75,452	86,034	75,452
USA	797	13,426	797	13,426
Other	1,066	734	1,066	774
	383,258	369,258	383,240	369,153

The investments made by the Company and the Group, during the year 2006 for the acquisition of property, plant and equipment and intangible assets, amounted to LTL 21,391 thousand and LTL 21,396 thousand respectively (LTL 13,608 thousand and LTL 13,643 thousand respectively in the year ended 31 December 2005). As all assets of the Company and the Group are in Lithuania, all acquisitions are related with the geographical segment of Lithuania.

4 Intangible assets

2006	**Group**	**Company**
Cost:		
Balance as of 31 December 2005	535	526
Additions	344	341
Retirements	(1)	(1)
Balance as of 31 December 2006	878	866
Amortisation:		
Balance as of 31 December 2005	111	106
Charge for the year	249	243
Balance as of 31 December 2006	360	349
Net book value as of 31 December 2006	**518**	**517**
Net book value as of 31 December 2005	**424**	**420**

2005	**Group**	**Company**
Cost:		
Balance as of 31 December 2004	302	293
Additions	466	466
Retirements	(233)	(233)
Balance as of 31 December 2005	535	526
Amortisation:		
Balance as of 31 December 2004	62	60
Charge for the year	153	150
Retirements	(104)	(104)
Balance as of 31 December 2005	111	106
Net book value as of 31 December 2005	**424**	**420**
Net book value as of 31 December 2004	**240**	**233**

Amortisation expenses of intangible assets are included within operating expenses in the income statement.

5 Property, plant and equipment

2006 Group	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2005	21,547	76,863	11,602	13,625	-	123,637
Additions	319	13,519	2,142	3,236	1,836	21,052
Disposed or written-off assets	(838)	(2,027)	(204)	(2,920)	-	(5,989)
Transfers to investment property	(8,481)	-	-	-	-	(8,481)
Reclassifications	2,552	(669)	64	(149)	(1,798)	-
Balance as of 31 December 2006	15,099	87,686	13,604	13,792	38	130,219
Accumulated depreciation:						
Balance as of 31 December 2005	6,703	56,577	3,797	8,024	-	75,101
Charge for the year	759	8,663	2,437	2,218	-	14,077
Disposed or written-off assets	(228)	(1,287)	(102)	(1,426)	-	(3,043)
Transfers to investment property	(2,826)	-	-	-	-	(2,826)
Reclassifications	433	(421)	(6)	(6)	-	-
Balance as of 31 December 2006	4,841	63,532	6,126	8,810	-	83,309
Impairment losses:						
Balance as of 31 December 2005	-	-	2	75	-	77
Charge for the year	-	-	-	-	-	-
Balance as of 31 December 2006	-	-	2	75	-	77
Net book value as of 31 December 2006	**10,258**	**24,154**	**7,476**	**4,907**	**38**	**46,833**
Net book value as of 31 December 2005	**14,844**	**20,286**	**7,803**	**5,526**	**-**	**48,459**

5 Property, plant and equipment (cont'd)

2005 Group	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2004	14,297	74,974	3,902	11,537	-	104,710
Additions	721	1,441	7,768	1,885	1,362	13,177
Disposed or written-off assets	-	(353)	(68)	(320)	-	(741)
Transfers from investment property	6,491	-	-	-	-	6,491
Reclassifications	38	801	-	523	(1,362)	-
Balance as of 31 December 2005	21,547	76,863	11,602	13,625	-	123,637
Accumulated depreciation:						
Balance as of 31 December 2004	4,224	48,449	2,438	5,800	-	60,911
Charge for the year	833	8,576	1,393	2,357	-	13,159
Disposed or written-off assets	-	(448)	(40)	(127)	-	(615)
Transfers from investment property	1,646	-	-	-	-	1,646
Reclassifications	-	-	6	(6)	-	-
Balance as of 31 December 2005	6,703	56,577	3,797	8,024	-	75,101
Impairment losses:						
Balance as of 31 December 2004	-	-	2	75	-	77
Charge for the year	-	-	-	-	-	-
Balance as of 31 December 2005	-	-	2	75	-	77
Net book value as of 31 December 2005	**14,844**	**20,286**	**7,803**	**5,526**	**-**	**48,459**
Net book value as of 31 December 2004	**10,073**	**26,525**	**1,462**	**5,662**	**-**	**43,722**

5 Property, plant and equipment (cont'd)

2006 Company	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2005	21,063	75,324	11,567	11,755	-	119,709
Additions	317	13,518	2,142	3,237	1,836	21,050
Disposed or written-off assets	(799)	(2,027)	(204)	(2,920)	-	(5,950)
Transfers to investment property	(10,842)	-	-	-	-	(10,842)
Reclassifications	2,551	(669)	64	(148)	(1,798)	-
Balance as of 31 December 2006	12,290	86,146	13,569	11,924	38	123,967
Accumulated depreciation:						
Balance as of 31 December 2005	6,605	55,645	3,764	6,842	-	72,856
Charge for the year	646	8,357	2,437	1,913	-	13,353
Disposed or written-off assets	(216)	(1,287)	(102)	(1,426)	-	(3,031)
Transfers to investment property	(3,491)	-	-	-	-	(3,491)
Reclassifications	431	(419)	(6)	(6)	-	-
Balance as of 31 December 2006	3,975	62,296	6,093	7,323	-	79,687
Net book value as of 31 December 2006	**8,315**	**23,850**	**7,476**	**4,601**	**38**	**44,280**
Net book value as of 31 December 2005	**14,458**	**19,679**	**7,803**	**4,913**	**-**	**46,853**

5 Property, plant and equipment (cont'd)

2005 Company	Land, buildings and construc-tions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:						
Balance as of 31 December 2004	13,841	73,441	3,867	9,668	-	100,817
Additions	693	1,435	7,768	1,884	1,362	13,142
Disposed or written-off assets	-	(353)	(68)	(320)	-	(741)
Transfers from investment property	6,491	-	-	-	-	6,491
Reclassifications	38	801	-	523	(1,362)	-
Balance as of 31 December 2005	21,063	75,324	11,567	11,755	-	119,709
Accumulated depreciation:						
Balance as of 31 December 2004	4,157	47,836	2,405	4,923	-	59,321
Charge for the year	802	8,257	1,393	2,052	-	12,504
Disposed or written-off assets	-	(448)	(40)	(127)	-	(615)
Transfers from investment property	1,646	-	-	-	-	1,646
Reclassifications	-	-	6	(6)	-	-
Balance as of 31 December 2005	6,605	55,645	3,764	6,842	-	72,856
Net book value as of 31 December 2005	**14,458**	**19,679**	**7,803**	**4,913**	**-**	**46,853**
Net book value as of 31 December 2004	**9,684**	**25,605**	**1,462**	**4,745**	**-**	**41,496**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year ended 31 December 2006 amounts to LTL 14,077 thousand and LTL 13,353 thousand respectively (LTL 13,159 thousand and LTL 12,504 thousand in the year 2005 respectively). Amounts of LTL 4,121 thousand for both the Group and the Company for the year 2006 (LTL 2,684 thousand for both for the year 2005) have been included into operating expenses in the Group's and the Company's income statement respectively. The remaining amounts have been included into production costs for the year.

Property, plant and equipment of the Company with a net book value of LTL 19,733 thousand as of 31 December 2006 (LTL 23,651 thousand as of 31 December 2005) was pledged to banks as a collateral for the loans received by AB Žemaitijos Pienas. The related parties AB Klaipėdos Pienas and ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 3,430 thousand and LTL 59 thousand respectively as of 31 December 2006 for the loans received by the Company (Note 14) (LTL 3,571 thousand and LTL 64 thousand respectively as of 31 December 2005).

Part of property, plant and equipment of the Group and the Company with the acquisition cost of LTL 38,567 thousand was fully depreciated as of 31 December 2006 (LTL 33,542 thousand as of 31 December 2005) but was still in active use.

In 2006 the Company has performed detail analysis of the Machinery and equipment account, and it has reclassified assets, which qualified for structures, to the Land, buildings and constructions account with the total net book value of LTL 459 thousand.

6 Investment property

	Group	Company
Cost:		
Balance as of 31 December 2005	-	-
Transfers from property, plant and equipment	8,481	10,842
Balance as of 31 December 2006	8,481	10,842
Accumulated depreciation:		
Balance as of 31 December 2005	-	-
Transfers from property, plant and equipment	2,826	3,491
Charge for the year	348	430
Balance as of 31 December 2006	3,174	3,921
Net book value as of 31 December 2006	**5,307**	**6,921**
Net book value as of 31 December 2005	-	-

	Group	Company
Cost:		
Balance as of 31 December 2004	6,491	6,491
Transfers to property, plant and equipment	(6,491)	(6,491)
Balance as of 31 December 2005	-	-
Accumulated depreciation:		
Balance as of 31 December 2004	1,567	1,567
Charge for the year	79	79
Transfers to property, plant and equipment	(1,646)	(1,646)
Balance as of 31 December 2005	-	-
Net book value as of 31 December 2005	-	-
Net book value as of 31 December 2004	**4,924**	**4,924**

The fair value of investment property approximates its book value.

The Group's rental income from the investment property for the year 2006 amounted to LTL 348 thousand (LTL 79 thousand in 2005). The Company's rental income from the investment property for the year 2006 amounted to LTL 430 thousand (LTL 79 thousand in 2005). Rental income has been included into other operating income in the Group's and the Company's income statement (Note 19).

Investment property in 2006 mainly represents rented property to ABF Šilutes Rambynas. The Group and the Company has started to rent the property due to the changed form of the transaction between the parties (Note 1).

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

7 Non-current receivables

		Group		Company	
		2006	2005	2006	2005
Held to maturity investments	a)	-	55	-	55
Non-current loans granted	b)	1,906	2,488	1,906	2,488
		1,906	2,543	1,906	2,543

a) Held to maturity investments of the Group and the Company comprised Government bonds held to maturity, which will be repurchased by the Government of Lithuania on a preset schedule during 2007. As of 31 December 2006 only the current portion of held to maturity investment remains which is accounted for under other receivables caption.

b) Non-current loans granted balance represents loans granted to the suppliers for raw materials and employees of the Group/Company. Current portion of non-current loans granted amounting to LTL 2,839 thousand as of 31 December 2006 (LTL 2,284 thousand as of 31 December 2005) is accounted for under other receivables caption in these financial statements.

The maturity of non-current loans granted by the Group and the Company is as follows:

	As of 31 December 2006
Within one year	2,839
From one to five years	1,735
After five years	171
Total	4,745

Part of these loans is non-interest bearing. They are stated at amortised cost and the value of non-interest bearing loans granted is discounted using the effective interest rate for similar loans (5%).

The remaining non-current loans granted bear 5% fixed interest rate.

8 Inventories

	Group		Company	
	2006	2005	2006	2005
Raw materials	12,318	13,064	12,286	13,027
Finished goods and work in process	25,925	34,271	25,925	34,271
Goods for resale	865	1,303	865	1,303
	39,108	48,638	39,076	48,601
Less: allowance	(31)	(30)	-	-
	39,077	48,608	39,076	48,601

The acquisition cost of the Group's inventories accounted for at net realisable value as of 31 December 2006 amounted to LTL 31 thousand (LTL 30 thousand as of 31 December 2005).

In the year ended 31 December 2006 the Group and the Company wrote off unusable inventories amounting to LTL 36 thousand (LTL 48 thousand as of 31 December 2005). This amount is accounted for in the operating expenses in the income statement.

8 Inventories (cont'd)

For loans received from banks AB Žemaitijos Pienas and related party ABF Šilutės Rambynas pledged inventories for LTL 32,000 thousand (Note 14) (as in more detail is described in Note 27, starting from 1 January 2007 the pledged inventories value has increased by LTL 160 thousand up to LTL 32,160 thousand).

9 Trade receivables

	Group		Company	
	2006	2005	2006	2005
Trade receivables, gross	31,607	23,381	31,607	23,367
Less: allowance for doubtful trade receivables	(58)	(236)	(58)	(236)
	31,549	23,145	31,549	23,131

Changes in allowance for doubtful trade receivables for 2006 and 2005 are included into operating expenses in the income statement.

The change in allowance for trade receivables had no effect on the profit of the Company and the Group of 2005, because the Company wrote off the trade receivables, for which this allowance was already accounted for.

10 Other receivables

As in more detail is described in Note 19, as of 31 December 2005 the Company has accounted for the receivable amounting to LTL 5,338 thousand related to the compensation of losses in relation to the prices of milk procurement by the Company. Other accounts receivable balance as of 31 December 2006 mainly includes the current portion of long-term loans granted amounting to LTL 2,839 thousand (LTL 2,284 thousand as of 31 December 2005) and a receivable VAT amounting to LTL 2,122 thousand (as of 31 December 2005 the Company accounted for VAT payable).

11 Cash and cash equivalents

	Group		Company	
	2006	2005	2006	2005
Cash at bank	12,461	10,466	12,083	10,054
Cash on hand	2,073	2,631	2,057	2,598
	14,534	13,097	14,140	12,652

In accordance with the long-term loan agreement, the Company has pledged cash balance in one bank account, the balance of which as of 31 December 2006 was equal to LTL 0.

12 Shareholders' equity

Share capital

	Shares (thousand)		Shareholders' equity (LTL thousand)	
	2006	**2005**	**2006**	**2005**
Ordinary shares issued as of 1 January	4,838	3,700	48,375	37,000
Ordinary shares issued	-	1,138	-	11,375
Ordinary shares issued as of 31 December	4,838	4,838	48,375	48,375

The nominal value of the ordinary share is LTL 10.

On 22 June 2005 the General Shareholders' meeting decided to increase the share capital of the Company by LTL 11,375 thousand, by issuing 1,137,500 ordinary shares with the nominal value of LTL 10. The share capital was increased from retained earnings (LTL 5,075 thousand), other reserves (LTL 3,540 thousand) and share surplus (LTL 2,760 thousand).

Share surplus

Share surplus is accounted, when the shares are sold at higher than nominal value. According to Lithuanian legislation, share surplus can not be distributed, but only transferred to the share capital. As described in the paragraph above, in the year ended 31 December 2005 the Company converted share surplus into share capital.

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. As of 31 December 2006 the legal reserve of the Company is fully formed.

Other reserves

Other reserves are formed based on a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than legal reserve should be restored to retained earnings and redistributed. As described in the section Share capital above, in the year ended 31 December 2005 the Company converted other reserves to share capital.

13 Grants received

	Group	Company
Grants received:		
Balance as of 31 December 2005	9,338	7,723
Additions	-	-
Balance as of 31 December 2006	9,338	7,723
Accumulated amortisation:		
Balance as of 31 December 2005	5,397	4,446
Charge for the year	1,868	1,553
Balance as of 31 December 2006	7,265	5,999
Net book value as of 31 December 2006	**2,073**	**1,724**
Net book value as of 31 December 2005	**3,941**	**3,277**

On 11 April 2002 the Company signed a financing agreement with the National Payment Agency at the Ministry of Agriculture (the "NPA") in relation to the Company's Modernisation Project (hereinafter in this paragraph the "Project"). The financing is provided from the European Commission (EC) Aid and National Budget in accordance with SAPARD financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The NPA obliged to provide the Company with a total financing of LTL 7,723 thousand for the implementation of the Project approved by the NPA on 29 March 2002. 75% of the support was provided by the EC and the remaining 25% - by the National Budget. The net book value of the grant was LTL 1,724 thousand as of 31 December 2006 (LTL 3,277 thousand as of 31 December 2005).

Additionally, in 2003 subsidiaries ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas received financing amounting to LTL 611 thousand and LTL 1,005 thousand, respectively, from the National Payment Agency at the Ministry of Agriculture for the acquisition of milk refrigeration equipment. The financing was provided from the European Commission Aid and the National Budget in accordance with SAPARD financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The net book value of the grants received by ŽŪK Tarpučių Pienas and ŽŪK Sodžiaus Pienas was equal to LTL 122 thousand and LTL 227 thousand respectively as of 31 December 2006 (LTL 244 thousand and LTL 420 thousand respectively as of 31 December 2005).

On 9 March 2006 the Company signed a subsidies agreement with the National Payment Agency at the Ministry of Agriculture (the "NPA") in relation to the Company's Manufacturing Lines Modernisation Project (hereinafter in this and successive paragraphs the "Project"). The financing is provided from the European Commission (EC) Aid and National Budget in accordance with financing stream Agriculture and Fishery Manufacturing and Marketing Modernisation. The NPA obliged to provide the Company with total financing up to LTL 3,435 thousand (or 44.72%) of the total planed Project value. LTL 2,533 thousand (or 73.74%) of the support will be provided by the EU Structural Funds and the remaining LTL 902 thousand (or 26.26%) - by the National Budget for the implementation of the Project. The Project should be completed till 10 January 2007.

The Company did not account for the receivable and liability equal to subsidy's part proportional to the Project part implemented as of 31 December 2006, since the Project was not fully completed at the mentioned date and the Project's implementation as well as the related documents have not yet been checked by the NPA for the compliance with the subsidy agreement.

The amortisation of the financing was offset against depreciation and accounted for under depreciation and amortisation caption under cost of sales in the statement of income for 2006 and 2005. The grant financing is amortised in equal parts over the depreciation period of the assets acquired using the financing received.

14 Loans

	Group		Company	
	2006	2005	2006	2005
Non-current loans				
Bank loans secured by Group's and related parties' assets	23,173	26,214	23,173	26,214
Current loans				
Current portion of non-current loans	22,913	23,497	22,913	23,497
	46,086	49,711	46,086	49,711

Terms of repayment of non-current loans o the Group and the Company were as follows:

	As of 31 December 2006	
	Fixed interest rate	Variable interest rate
2007	-	22,913
2008	-	7,466
2009	7,505	2,775
2010 and thereafter	-	5,427
	7,505	38,581

Parts of loans of the Group and the Company at the end of the year in national and foreign currencies (amounts in the table are presented in LTL thousand) are as follows:

	2006	2005
Loans denominated in:		
EUR	38,581	43,650
LTL	7,505	6,061
	46,086	49,711

As of 31 December 2006 the weighted average effective interest rate of loans outstanding was 4.3% (3.82% as of 31 December 2005). Variable interest rates are related to 12 months EUR LIBOR.

14 Loans (cont'd)

For the loans received related party ABF Šilutės Rambynas and the Company has pledged inventories for LTL 32,000 thousand (Note 8). In addition the Company pledged property, plant and equipment with the net book value of LTL 19,733 thousand (Note 5) as of 31 December 2006. The related parties AB Klaipėdos Pienas and ABF Šilutės Rambynas also pledged the property, plant and equipment with the net book value of LTL 3,430 thousand and LTL 59 thousand, respectively as of 31 December 2006.

The Company has to comply with the covenants set by the banks during the period till credit maturity. The main financial covenants set in the credit agreements are as follows:

- the ratio of current assets to sales (denominated in percent), which is calculated at the end of each quarter, should not exceed 33%, and at the peak (due to seasonal fluctuations of the operations for the period not exceeding three months consecutively during the year) should not exceed 38%;
- the ratio of loan servicing, calculated at the end of each quarter, should be not less than 1.2;
- financial liabilities to EBITDA ratio should not exceed 3;
- capital and reserves (including grants) to all assets ratio should be not less than 40%.

Apart from these ratios there are other covenants set forth for to the Company in the agreements of the loans. In the year ended 31 December 2006 and 2005 the Company complied with all covenants set in the long-term loans agreements.

15 Financial lease

The assets leased by the Group and the Company under financial lease contracts consist of vehicles, refrigerators, curd production line and cheese cutting line. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are up to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Equipment	4,085	480	4,085	480
Vehicles	4,313	3,898	4,313	3,898
	8,398	4,378	8,398	4,378

Principal amounts of financial lease payables at year-end denominated in national and foreign currencies are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
EUR	6,326	4,847	6,326	4,847
LTL	-	588	-	588
	6,326	5,435	6,326	5,435

As of 31 December 2006 the interest rate of the balance of financial lease liability, which is equal to LTL 863 thousand, varies depending on the 12-month EUR LIBOR plus 1.1%, LTL 2,218 thousand varies depending on the 6-month EUR LIBOR plus 1.1% and LTL 2,791 thousand – 6-month EUR LIBOR plus 0.8%. The interest rate for the remaining portion of the financial lease liability outstanding as of 31 December 2006 is fixed and amounts to 5.85%.

15 Financial lease (cont'd)

Minimal future lease payments under the above mentioned lease contracts of the Group and the Company as of 31 December 2006 are as follows:

Within one year	1,964
From one to five years	4,908
Total financial lease liabilities	6,872
Interest	(546)
Present value of financial lease liabilities	6,326
Financial lease liabilities are accounted as:	
- current	1,727
- non-current	4,599

16 Operating lease

The Group and the Company concluded several contracts of operating lease. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional loans or additional lease agreements. In the year ended 31 December 2006, the lease expenses of the Group and the Company amounted to LTL 3,904 thousand (LTL 6,761 thousand in the year ended 31 December 2005).

Future lease payments according to the signed lease contracts are as follows:

Within one year	3,467
From one to five years	4,803
After five years	-
	8.270

The currency of the payment of operating lease is Litas.

17 Other current liabilities

	Group		Company	
	2006	2005	2006	2005
Social security payable	960	1,168	960	880
Accrued expenses	645	745	601	679
Advances received	641	449	641	449
Taxes, other than income tax	133	110	16	58
Wages and salaries payable	2	185	1	59
Other current liabilities	1,022	747	735	680
	3,403	3,404	2,954	2,805

18 Operating expenses

	Group		Company	
	2006	2005	2006	2005
Wages, salaries and social security*	26,731	23,954	26,563	23,868
Services	13,855	15,049	14,016	15,246
Fuel and spare parts	5,853	5,770	5,853	5,770
Depreciation and amortisation	4,370	2,837	4,364	2,834
Materials	2,094	1,761	2,094	1,761
Taxes, other than income tax	1,099	1,635	1,099	1,624
Marketing	5,683	4,949	5,683	4,949
Other	2,212	1,711	2,184	1,649
	61,897	57,666	61,856	57,701

* In the year ended 31 December 2006 the Group's and the Company's wages, salaries and social security expenses amounted to LTL 50,744 thousand and LTL 49,150 thousand respectively (LTL 47,764 thousand and LTL 45,955 thousand respectively in the year ended 31 December 2005). LTL 26,594 thousand and LTL 26,532 thousand respectively of this amount are accounted in operating expenses (LTL 23,954 thousand and LTL 23,868 thousand respectively in the year ended 31 December 2005), LTL 755 thousand are accounted for in other operating expenses (LTL 684 thousand in the year ended 31 December 2005) and the remaining expenses are accounted in production cost.

19 Other operating income (expenses)

On 30 December 2005 the Supreme Administrative Court of Lithuania adjudged the compensation for losses incurred amounting to LTL 5,338 thousand for the Company's benefit from the Ministry of Agriculture of the Republic of Lithuania. This compensation for losses incurred is related to the prices of milk procurement by the Company in 2003, which were paid to the suppliers of milk, according to the requirements of the legislation of the Republic of Lithuania. According to the decision of the court, the annual interest amounting to 5% of the amount of the compensation was also adjudged to the Company, calculated from 9 February 2004 until complete repayment of the mentioned amount. In the financial statements for the year 2005 the Company accounted for the amount of the compensation in the caption of other operating income, also calculated interest amounting to LTL 462 thousand for the period from 9 February 2004 until 31 December 2005, and accounted for this amount in the income from financial and investment activities in the income statement for the year 2005 (Note 20). The total amount of the compensation and interest calculated was also accounted for in other receivables.

In the year ended 31 December 2006 and 2005 other operating income of the Company and the Group also consisted of income of the canteen (LTL 908 thousand and LTL 631 thousand during the respective year), sales of assets (LTL 6,846 thousand and LTL 3,717 thousand during the respective year), rental income (LTL 2,394 thousand and LTL 484 thousand during the respective year) and other. The rental income increased because of the rented assets to the related party UAB Žemaitijos Prekyba due to transferred retail activities (Note 1) and due to increased number of rented assets to the related parties UAB Baltijos Mineralinių Vandenų Kompanija and ABF Šilutės Rambynas. In the year ended 31 December 2006 and 2005 other operating expenses of the Company and the Group mostly consist of wages, salaries and social security (LTL 755 thousand and LTL 684 thousand during respective year), cost of sales of assets (LTL 6,362 thousand and LTL 3,689 thousand during respective year) and other. The increase of sales and related cost of materials was caused by the increase of sales to related parties ABF Šilutės Rambynas and UAB Žemaitijos Prekyba.

20 Income (expenses) from financial and investment activities

	Group		Company	
	2006	**2005**	**2006**	**2005**
Income from financial and investment activities				
Interest income, related to compensation (Note 19)	-	462	-	462
Foreign currency exchange gain	45	1,276	45	1,276
Interest income	333	245	332	245
Other financial income	-	125	-	125
	378	2,108	377	2,108
(Expenses) from financial and investment activities				
Foreign currency exchange (loss)	(77)	(458)	(77)	(458)
Interest (expenses)	(2,302)	(2,131)	(2,285)	(2,130)
Other financial (expenses)	(6)	-	-	-
	(2,385)	(2,589)	(2,362)	(2,588)

21 Income tax

	Group		Company	
	2006	2005	2006	2005
Components of the income tax expense				
Current income tax for the reporting period	3,347	2,035	3,314	2,023
Correction of income tax of prior periods	-	(5)	-	(5)
Change in tax due to temporary differences	6	(52)	(118)	(52)
Change of deferred income tax due to the change of income tax rate	17	(71)	17	(41)
Change in valuation allowance for deferred income tax	(124)	30	-	-
Income tax expenses recorded in the income statement	3,246	1,937	3,213	1,925

	Group		Company	
	2006	2005	2006	2005
Deferred income tax asset				
Accrued taxable loss	15	139	-	-
Inventories	125	39	125	39
Accrued liabilities	131	113	131	113
Other	42	45	42	45
Deferred income tax asset before valuation allowance	313	336	298	197
Less: valuation allowance	(15)	(139)	-	-
Deferred income tax asset, net	298	197	298	197

Deferred income tax asset was accounted for using the tax rate of 18% as of 31 December 2006 (19% as of 31 December 2005), i.e. using the tax rate when deferred income tax is expected to be realised.

21 Income tax (cont'd)

The changes of temporary differences before the tax effect in the Group were as follows:

	Balance as of 31 December 2005	Recognised in income statement	Balance as of 31 December 2006
Accrued taxable loss	734	(648)	86
Inventories	206	488	694
Accrued liabilities	595	130	725
Other	235	-	235
Deferred income tax asset before valuation allowance	1,770	(30)	1,740

The changes of temporary differences before the tax effect in the Company were as follows:

	Balance as of 31 December 2005	Recognised in income statement	Balance as of 31 December 2006
Inventories	206	488	694
Accrued liabilities	595	130	725
Other	235	-	235
Deferred income tax asset before valuation allowance	1,036	618	1,654

The reported amount of income tax expenses attributable to the period can be reconciled to the theoretical amount of income tax expenses that would arise from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2006	2005	2006	2005
Profit before tax	**16,146**	**12,218**	**15,797**	**11,764**
Income tax expenses computed using the statutory tax rate	3,068	1,833	3,001	1,765
Non-deductible differences	166	150	195	206
Change of tax rate	17	(71)	17	(41)
Change in allowance for deferred tax asset	(5)	30	-	-
Adjustments of income tax for prior periods	-	(5)	-	(5)
	3,246	1,937	3,213	1,925

22 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year.

	Group	
	2006	2005
Net profit attributable to the shareholders	12,900	10,281
Weighted average number of shares (in thousand)	4,838	4,838
Basic earnings per share (LTL)	2.67	2.13

Weighted average number of shares is calculated as follows:

	Group	
	2006	2005
Shares outstanding 1 January – 31 December (in thousand)	4,838	3,700
Newly issued shares from share surplus and retained earnings (thousand)	-	1,138
Weighted average number of shares (in thousand)	4,838	4,838

Diluted earnings per share equal to basic earnings per share as there were no potential shares issued as of 31 December 2006.

23 Dividends per share

	Group	
	2006	2005
Dividends paid	2,903	740
Number of shares (thousand)	4,838	3,700
Dividends per share (LTL)	0.60	0.20

24 Financial assets and liabilities and risk management

Credit risk

The Group and the Company has no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. Customers' risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group does not guarantee obligations of other parties, except for the guarantee disclosed in Note 25 to these financial statements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of receivables (Note 9), net of impairment losses recognised at the balance sheet date.

Interest rate risk

Part of the Group's loans is with variable rates, related to LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity and quick ratios as of 31 December 2006 were 1.84 and 1.16 (1.81 and 0.96 as of 31 December 2005). The Company's liquidity and quick ratios as of 31 December 2006 were 1.80 and 1.14 (1.79 and 0.94 as of 31 December 2005).

Foreign exchange risk

Major currency risks of the Group occur due to the fact that the Group borrows foreign currency denominated funds as well as is being involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged. Monetary assets and liabilities stated in various currencies as of 31 December 2006 were as follows:

	Group		**Company**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	64,317	74,827	63,875	75,545
EUR	3,902	12,002	3,902	12,002
USD	3	10	3	10
LVL	689	12	689	12
DKK	-	6	-	6
RUB	-	24	-	24
Total	68,911	86,881	68,469	87,599

24 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments

The Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term loans.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current accounts payable and short-term loans approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans with variable and fixed interest rates approximates their carrying amounts.

25 Commitments and contingencies

During the reorganisation that took place in 2004 AB Žemaitijos Pienas transferred the financial lease agreement with UAB Nordea Finance Lithuania to a newly established company AB Žemaitijos Pieno Investicija. Assets and related liabilities were transferred according to a trilateral agreement between the Company, AB Žemaitijos Pieno Investicija and UAB Nordea Finance Lithuania dated 14 November 2004. On the same day the Company signed a guarantee agreement with UAB Nordea Finance Lithuania, and guaranteed for liabilities of AB Žemaitijos Pieno Investicija, according to the transferred agreement. The liability of AB Žemaitijos Pieno Investicija according to this agreement was LTL 2,618 thousand as of 31 December 2006 (LTL 3,444 thousand as of 31 December 2005).

As of 31 December 2006 the Group and the Company had no material purchase commitments for the acquisition of property, plant and equipment.

26 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company are as follows:

- AB Žemaitijos Pieno Investicija (same controlling shareholder);
- ABF Šilutės Rambynas (same controlling shareholder);
- UAB Baltijos Mineralinių Vandenų Kompanija (same controlling shareholder);
- AB Klaipėdos Pienas (same controlling shareholder);
- UAB Žemaitijos Prekyba (same controlling shareholder);
- UAB Gimtinės Pienas (same controlling shareholder).

26 Related party transactions (cont'd)

The related party transactions and the balances at the end of the year were as follows:

	Group		Company	
i) Sales	**2006**	**2005**	**2006**	**2005**
Sales of non-current assets				
UAB Baltijos Mineralinių Vandenų Kompanija	400	44	400	44
AB Klaipėdos Pienas	-	330	-	330
ABF Šilutės Rambynas	81	12	81	12
AB Žemaitijos Pieno Investicija	1,775	265	1,775	265
UAB Gimtinės Pienas	-	16	-	16
UAB Žemaitijos Prekyba	1,031	-	1,031	-
	3,287	667	3,287	667
Sales of inventory and services				
UAB Baltijos Mineralinių Vandenų Kompanija	7,092	7,347	7,092	7,347
AB Klaipėdos Pienas	3,536	3,015	3,536	3,015
ABF Šilutės Rambynas	5,255	492	5,255	486
AB Žemaitijos Pieno Investicija	112	16	112	16
UAB Gimtinės Pienas	43	166	31	97
UAB Žemaitijos Prekyba	22,071	-	22,071	-
	38,109	11,036	38,097	10,961
Total Sales	**41,396**	**11,703**	**41,384**	**11,628**

	Group		Company	
ii) Purchases	**2006**	**2005**	**2006**	**2005**
UAB Gimtinės Pienas	2,058	9,311	2,058	9,311
ABF Šilutės Rambynas	63,609	9,098	63,588	9,073
AB Klaipėdos Pienas	3,674	6,350	3,674	6,350
UAB Baltijos Mineralinių Vandenų Kompanija	755	6,315	755	6,315
AB Žemaitijos Pieno Investicija	3,022	5,913	3,022	5,913
UAB Žemaitijos Prekyba	204	196	204	196
	73,322	37,183	73,301	37,158

26 Related party transactions (cont'd)

iii) Year-end balances of accounts receivables	Group 2006	Group 2005	Company 2006	Company 2005
ABF Šilutės Rambynas	11,981	4,633	11,981	4,626
UAB Baltijos Mineralinių Vandenų Kompanija	2,216	2,616	2,216	2,617
UAB Gimtinės Pienas	57	215	57	67
AB Klaipėdos Pienas	-	183	-	183
UAB Žemaitijos Prekyba	1,124	140	1,124	140
	15,378	7,787	15,378	7,633

iv) Year-end balances of payables	Group 2006	Group 2005	Company 2006	Company 2005
AB Žemaitijos Pieno Investicija	3,413	4,746	3,413	4,745
AB Klaipėdos Pienas*	3,385	3,594	1,326	1,534
UAB Gimtinės Pienas	-	437	-	437
UAB Žemaitijos Prekyba	10	409	-	400
ABF Šilutės Rambynas	48	22	-	-
	6,856	9,208	4,739	7,116

* AB Klaipėdos Pienas has granted non-current interest-free loans to ŽŪK Sodžiaus Pienas and ŽŪK Tarpučių Pienas amounting to LTL 930 thousand. The loans should be repaid till 31 December 2007.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables, except as discussed in Note 25 above. For the year ended 31 December 2006 and 2005, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 2,046 thousand in the year ended 31 December 2006 (LTL 1,828 thousand in the year ended 31 December 2005). In 2006 the Company has granted short term loans to the management in total amount of LTL 1,282 thousand, which were repaid to the Company till 31 December 2006. In the year ended 31 December 2006 and 2005, the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued.

27 Subsequent events

According to the signed appendix to the loan agreement with AB SEB Vilniaus Bankas on 21 December 2006, starting from 1 January 2007 the value of the Group's pledged inventories has been increased by LTL 160 thousand from LTL 32,000 thousand to LTL 32,160 thousand.

The Board of the Company have not yet approved the amount, which will be allocated to pay dividends for the year 2006.