

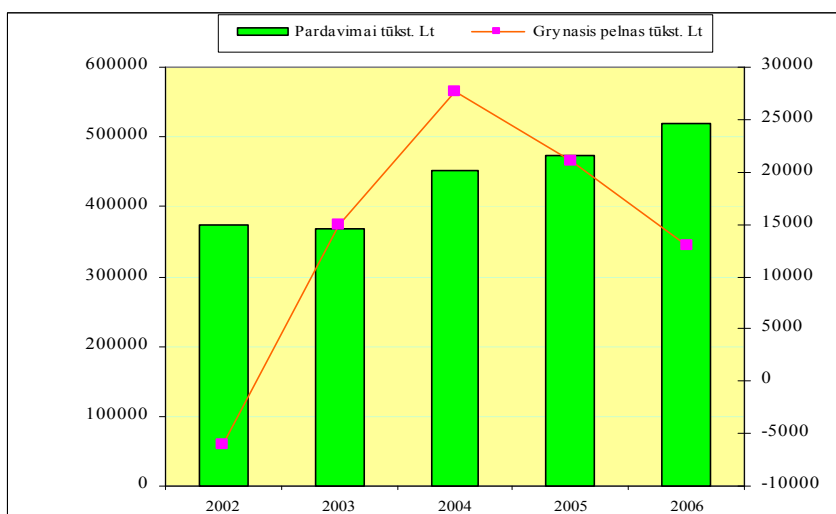


## Rokiškio Sūris AB Group Annual Report for 2006

### Overview of performance

Rokiškio Sūris AB (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") earned sales revenue of LTL 518.144 million and net consolidated audited profit of LTL 13.021 million. Although the Group's profit for 2006 decreased by 38.0 per cent as compared to LTL 21.000 million in 2005, its sales revenue was higher by 9.5 per cent as compared to LTL 473.118 million in 2005.

In 2006, the total payroll expenses amounted to LTL 31,833 thousand, which is less by LTL 7,503 thousand as compared to 2005. The average gross salary in 2006 was LTL 1,492 (including part-time managers of 432 milk buying-up stations) as compared to LTL 1,325 in 2005. In 2006, the average number of employees fell down to 1,620 as compared to 1,891 employees in the Group.



### Objective overview of the financial position, performance and development, description of its exposure to key risks and contingencies

Possible areas of development have been analysed, and separate plans of actions have been prepared in relation to development activities in foreign countries.

Key risks and contingencies arise from uncertainties related to the standpoint of foreign competition agencies towards the development of the Lithuanian companies.

### Changes in the financial position

In October 2005, Rokiškio Sūris AB applied for financial aid from the EU amounting to LTL 3.45 million to finance its business plan for *Rokiškio Sūris AB Whey Collection and Processing*.

In December 2006, a request for payment appropriation was submitted for the 1st stage of investment aid. Amount of aid requested was LTL 2.23 million. The second request for payment appropriation will be submitted in the second quarter of 2007.

The financial aid obtained will enable the Group to solve environmental issues and strengthen its competitiveness in the EU market, as well as ensure full processing of whey through actual implementation of wasteless production technology, and produce new products.

In 2006, Rokiškio Sūris AB branch Utenos Pienas received a subsidy of LTL 0.3 million from the Lithuanian Environmental Investment Fund for solution of environmental issues and improvement of steam supply and condensate return system.

In 2006, financial aid received for private storage of long-term maturing cheese amounted to LTL 0.1 million.

In 2006, subsidies paid to the group for products sold amounted to LTL 21,040 thousand.

During the reporting financial year the Group acquired property, plant and equipment and intangible assets for LTL 21,553 thousand (2005: LTL 12,400 thousand, 2004: LTL 21,701 thousand).

As at 31 December 2006, the Group's short-term borrowings amounted to LTL 74,048 thousand, and long-term borrowings amounted to LTL 2,289 thousand. Total borrowings of the Group amounted to LTL 76,337 thousand at the year end.

### Key indicators of the performance

No.	Indicators		2004	2005	2006
1.	Net profit margin	$\frac{\text{Net profit}}{\text{Revenues}}$	0,06	0,04	0,03
2.	Average return on assets	$\frac{\text{Net profit}}{\text{Average assets}}$	0,09	0,07	0,04
3.	Debt ratio	$\frac{\text{Liabilities}}{\text{Assets}}$	0,3	0,35	0,40
4.	Debt-to-equity ratio	$\frac{\text{Liabilities}}{\text{Equity}}$	0,43	0,54	0,67
5.	General liquidity ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1,96	1,66	1,51
6.	Assets turnover ratio	$\frac{\text{Revenues}}{\text{Assets}}$	1,61	1,58	1,61
7.	Book value per share, LTL	$\frac{\text{Equity}}{\text{Number of ordinary shares}}$	41,26	40,96	40,67
8.	Net earnings per share, LTL	$\frac{\text{Net profit}}{\text{Number of shares}}$	6,21	4,81	3,01

### The Company's share value

During 2006, Rokiškio Sūris AB share value quoted on the Vilnius Stock Exchange ranged from LTL 43.50 to LTL 75.50. Total stock turnover was LTL 59.60 million in 2006.

At the year-end, the Company's capitalisation was LTL 261.04 million, and the last trade price of securities was LTL 55.00.

### Rokiškio Sūris AB Group structure

At the end of 2006, Rokiškio Sūris AB Group consisted of the parent company Rokiškio Sūris AB its two branches: Utenos Pienas and Ukmergės Pieninė and subsidiary company: Rokiškio pienas UAB.

## **Structural changes over the financial year 2006**

As a result of discontinued operations, Rokiškio Sūris AB branch Eišiškių Pieninė was removed from the Lithuanian Register of Legal Entities on 5 April 2006.

For the purpose of separating the business of production of fresh dairy products from the business of production of cheese, a subsidiary Rokiškio Pienas UAB was established and registered with the Lithuanian Register of Legal Entities on 21 April 2006. The subsidiary is wholly-owned by Rokiškio Sūris AB.

As at 31 December 2006, Rokiškio Sūris AB had one subsidiary – Rokiškio Pienas UAB.

## **Acquisition of own shares**

During 2006, Rokiškio Sūris AB acquired 82,570 own ordinary registered shares (1.73% of share capital). The shares were acquired by way of open bid on the Vilnius Stock Exchange, where the price payable per ordinary registered share was LTL 50.00. Own funds were used by Rokiškio Sūris AB for the payment of own shares.

The purpose of acquisition of own shares was to maintain and increase the stock price of Rokiškio Sūris AB.

As at 31 December 2006, Rokiškio Sūris AB had 474,617 own shares, which account for 10 per cent of the authorised share capital of Rokiškio Sūris AB. Par value of one share is LTL 10.

## **Changes in management of Rokiškio Sūris AB Group**

During the General Ordinary Shareholders Meeting of Rokiškio Sūris AB held on 28 April 2006, all Board members were recalled and a new Board was elected. The newly elected Board members of Rokiškio Sūris AB were as follows: Mr. Nerijus Dagilis, Mr. Dalius Trumpa, Mr. Antanas Kavaliauskas, Mr. Andrius Trumpa, and Mr. Ramūnas Vanagas. Mr. Nerijus Dagilis was elected as a Chairman of the Board.

Following the resignation of Mr. Nerijus Dagilis from the positions of the Board Member and the Chairman of the Board on 5 July 2006, Mr. Dalius Trumpa was elected for the position of the Chairman of the Board.

## **Raw milk supplies**

In 2006, 1,558.4 thousand tonnes of base fat milk were bought up in Lithuania, which is more by 8.7 per cent as compared to 2005. In 2006, the average price of base fat milk in Lithuania increased by 2 per cent as compared to 2005 and amounted to LTL 578 per tonne.

Rokiškio Sūris AB bought up 320,069 tonnes of base fat milk directly from milk producers for an average price of LTL 556 per tonne. Base fat milk bought up subject to no discounts accounted for 95.6 per cent of total base fat milk bought up in 2006.

Milk bought up from other suppliers amounted to 212,758 tonnes for an average price of LTL 691 per tonne. Rokiškio Sūris AB Group companies bought up in total 532,827 tonnes of base fat milk or more by 6.0 per cent as compared to 2005. In 2006, an average price of milk bought up was LTL 610 per tonne, which is higher by LTL 26 per tonne as compared to 2005.

Raw milk supplies from the Baltic region were expanded comprising not only in Lithuania, but Latvia, as well.

## **Production, production output, and new products**

### **Rokiškio Sūris AB**

During 2006, in Rokiškis Rokiškio Sūris AB produced 28,033 tonnes of fermented cheese (more by 12.8 per cent than in 2005), 7,446 tonnes of milk sugar, and 51,576 tonnes of 9% whey protein concentrate.

In 2006, for the purpose of reducing production costs and sustain a high level of production, production technology for Gojos and Cagliata brands of cheese was improved.

A modern system to ensure safe food management and quality of food was introduced in the production process, which is certified at a global level and enables to produce safe and quality food products that meet the requirements of customers.

The Company continuously seeks to mitigate adverse effect on environment and ensures a minimal level for utilization of hazardous substances and generation of waste.

Fermented cheese produced in Rokiškis is well appreciated among the consumers, which is assured during the trade fairs held in Lithuania and Russia.

### **Branch Ukmergės Pieninė**

Ukmergės Pieninė is one of the most modern dairying company of curd and curd-cheese all over Lithuania. Along with rapid development of dairying companies and intense competition, the branch Ukmergės Pieninė specializes in production of curd, curd-cheese and coated curd-cheese bars, expands the range of products offered, and successfully continued the production of melted curd products.

The main objective of the branch is to find an optimal production solution that would satisfy the needs of the customers and increase the Groups's profit at a maximum level.

A modern production department of curd and curd-cheese was set up. The focus is given to installation of state-of-the-art technology and development of new products, which enables the Group to achieve good results and maintain a high level of production output, as well as ensure safe production of products

In 2006, 4,154 tonnes of products were produced (more by 2.4 per cent as compared to 2005), whereof 2,760 tonnes of curd, 427 tonnes of curd-cheese, 789 tonnes of coated curd-cheese bars, 67 tonnes of fruit juice drinks, and 111 tonnes of melted curd products.

Technologies and new products are in the process of development: melted curd products, home-made curd cheese, yummy curd-cheese (sausages), &JOY curd for kids.

RVASVT system was subject to recertification in compliance with ISO 22000:2005 standard Food safety management systems – Requirements for any organization in the food chain.

The branch Ukmergės Pieninė often participates with its products at trade fairs and has a number of awards. The company produces a well-appreciated curd-cheese among the customers *Proginis varškės sūris*.

### **Branch Utenos Pienas**

In 2006, the branch Utenos Pienas produced 843 tonnes of skimmed milk powder, 9.7 tonnes of buttermilk powder, 4,550 tonnes of whey protein concentrate powder, 3,907 tonnes of butter-fat mixture, 56,512 tonnes of fresh dairy products, and 10,603 tonnes of cream were produced and exported.

New products are successfully produced, which include yoghurts with orange and carrots, milk drink of the taste of peach, 20 % fat source cream, and fat mixture BIFIDO.

## Sales and marketing

Rokiškio Sūris AB group of companies is one of the largest and strongest dairying company in Lithuania. Its sales are widely diversified – products are exported to Eastern and Western markets, and a full range of fresh dairy products are sold primary to meet the needs of domestic market.

In 2006, the Group's sales increased by 3 per cent as compared to 2005 and reached LTL 518 million. With each year, the Group consistently increases its sales and in 2007 it plans to increase sales by additional 18 per cent up to LTL 610 million.

Over 2/3 of sales of Rokiškio Sūris AB group represent exported production, where fermented cheese accounts for even ¾ of exported products. Since long ago, the Group has been focused on mass production of fermented cheese and is one of the largest and well-known producers of fermented cheese in the region of Central and Eastern Europe. Two main areas of sales of fermented cheese of a similar relevance may be distinguished: sales to the EU markets (mainly to Italy and the Netherlands), and sales to Russia. Sales in the EU region mostly comprise hard and non-matured (fresh) cheese, whereas sales in the Russian market comprise mainly semi-hard cheese. For exports of fermented cheese to the Russian market, the Company receives subsidies, which enable it to compete successfully with lower-price local production. The potential of this market is growing. Here the Company sells products with its trademark, and it plans to strengthen them, and expand the range of packaging used.

And beyond any doubt, cheese with trademark of Rokiškio Sūris is well-known and well-buyable on the local market. Cheese of Rokiškio Sūris is associative with unquestionable and highest quality product.

Presently, the Group has withdrawn from the US market, where prices are no longer attractive as they were several years ago due to the falling US dollar rate.

In addition, in export markets the Group sells ordinary milk products, such as butter, cream, milk powder, and additional products that are used in the process of production of cheese, i.e. whey protein concentrate and lactose.

The Group remains the major exporter of dairy products – in 2006 it exported over 22 thousand tonnes of fermented cheese (more by 8 per cent as compared to 2005), 10.6 thousand tonnes of cream (more by 4 per cent as compared to 2005), 5.4 thousand tonnes of lactose (more by 24 per cent as compared to 2005), 3.35 thousand tonnes of whey protein concentrate (more by 10 per cent as compared to 2005), and 1.8 thousand tonnes of butter and 0.9 thousand tonnes of milk powder each.

Another important area of focus for the Group is sales of fresh dairy products in Lithuania. During the recent years, the Group has become one of the leaders on the domestic market and today it shares the leading positions together with Pieno Žvaigždės. Over the last several years, the Group's objectives in the domestic market have changed radically: it is attempted to have a higher added value, promotion of sales is carried out through development of trademarks, introduction of new products, and innovations offered for the market (the Company's sales in dessert and other categories of new products increased twice during one and a half years). The Company's marketing function strengthens with each year.

The Group's objectives in respect of the domestic market are to focus on the portfolio of the core strongest products and retain a market share of not less than approx. 25 per cent. These objectives have been successfully implemented so far.

The Group will further seek to maintain close relations with its customers, especially with the retail trade chains, the percentage of which in the sales gradually increases and accounts for over 80 percent of aggregate internal turnover. The Group will further seek to strengthen confidence of its customers through building a single logistic system, which will enable the customer to get the production of all companies from one location and only with one document. This will encourage the customers to co-operate with the company as a convenient partner.

Today the Group has already formed the core of its trademarks: economic – VISIEMS, mass – ŽALOJI KARVUTĖ, premium – ROKIŠKIO and ROKIŠKIO NAMINIS, dessert – &JOY, Horeca sector – PROF, low-fat – VALGYK LENGVAI. The Company sells ecological products.

A special focus is placed on ensuring sustained quality the products, which helps to successfully implement the marketing strategy.

Presently, the Group is preparing for other important projects related to quality improvement and standard compliance with the EU requirements with the help of financial aid from the EU and the structural funds.

### **Information on research and development activities**

A study of foreign dairying companies was carried out via consulting companies.

A preliminary survey was conducted for possible consolidation with foreign dairying companies.

### **Operation plans and forecasts**

For the year 2007, the Company has plans to achieve sales of LTL 610 million, which is more by 17.8 per cent as compared to 2006, and net profit margin of at least 4.2 per cent.

Forecast – to gain control over one or several companies to conduct business operations via them in foreign countries this or next year.

The Group's main objectives are as follows:

- Sales and marketing – retain market share and penetrate into new emerging markets, develop new products and services.
- Production – sustain the highest quality of products, produce new dairy products and supplement the range of products offered, fully use the current production capacity and implement modern technologies.
- Raw milk supplies – retain the status of the largest and the most credible buyer of raw milk in Lithuania, and buy out raw milk from neighbouring countries.
- Finance – ensure required profitability and liquidity levels, maximise the value of shareholders' assets.
- Management – improve functional management system through implementation of management by type of products.

### **APPENDIX to Consolidated annual report**

Rokiškio sūris AB disclosure of compliance with the Governance Code of the companies whose securities are traded on a regulated market on pages i - xxvi is an integral part of this consolidated annual report.

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A. Trumpa  
Director

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A.Kavaliauskas  
Finance director