ROKIŠKIO SŪRIS AB

CONSOLIDATED FINANCIAL STATEMENTS, ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2006

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF ROKIŠKIO SŪRIS AB

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(All tabular amounts are in LTL '000 unless otherwise stated)

Consolidated income statement

	Notes	Year ended 31 December 2006	2005
Sales	5	518,144	473,118
Cost of sales		(450,963)	(399,707)
Gross profit		67,181	73,411
Selling and marketing expenses	6	(24,358)	(25,920)
General and administrative expenses	7	(21,936)	(17,760)
Other operating losses	8	(197)	(2,269)
Operating profit		20,690	27,462
Finance costs	10	(2,452)	(1,872)
Profit before tax		18,238	25,590
Income tax	11	(5,217)	(4,590)
Net profit		13,021	21,000
Attributable to:			
Equity holders of the Company		13,021	20,952
Minority interest		-	48
		13,021	21,000
Diluted and basics earnings per share (LTL per share)	12	3.01	4.81

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 5 to 32 have been approved for issue by the Board of Directors as at 1 April 2007 and signed on their behalf by the Director and Chief Financial Officer.

Antanas Trumpa
Director

Antanas Kavaliauskas
Chief Financial Officer

(All tabular amounts are in LTL '000 unless otherwise stated)

Consolidated balance sheet

	Notes	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	13	122,822	127,013
Intangible assets	14	547	1,135
Other receivables	15	13,167	15,165
		136,536	143,313
Current assets			
Inventories	16	102,703	71,115
Trade and other receivables	17	81,223	81,840
Prepaid Income Tax		1,625	-
Cash and cash equivalents	18	669	3,184
		186,220	156,139
Total assets		322,756	299,452
EQUITY			
Attributable to the equity holders of the Company			
Share capital	19	47,462	47,462
Share premium		41,473	41,473
Reserve for acquisition of treasury shares		30,000	10,000
Treasury shares	21	(20,352)	(16,224)
Other reserves	22	69,805	69,805
Retained earnings		24,645	41,900
Total equity		193,033	194,416
LIABILITIES			
Non-current liabilities			
Borrowings	23	-	4,253
Deferred income	24	6,703	6,551
		6,703	10,804
Current liabilities			
Income tax liabilities			217
Borrowings	23	76,337	50,701
Deferred income	24	2,380	2,179
Trade and other payables	25	44,303	41,135
		123,020	94,232
Total liabilities		129,723	105,036
Total equity and liabilities		322,756	299,452

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

Consolidated statement of changes in equity

		Attributable to the equity holders of the Company								
	Notes	Share capital	Share premium	Reserve for acquisition of treasury shares	Treasury shares	Other reserves	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2005		47,462	41,473	10,000	(16,224)	69,805	41,844	194,360	1,468	195,828
Change in accounting policy	14	-	-	-	-	-	875	875	-	875
Net profit for the period		-	-	-	-	-	20,952	20,952	48	21,000
Total recognised income for 2005		**-**	**-**	**-**	**-**	**-**	**21,827**	**21,827**	**48**	**21,875**
Minority of subsidiaries disposed		-	-	-	-	-	-	-	(1,516)	(1,516)
Dividends relating to 2004	20	-	-	-	-	-	(21,771)	(21,771)	-	(21,771)
Balance at 31 December 2005		47,462	41,473	10,000	(16,224)	69,805	41,900	194,416	-	194,416
Net profit for the period		-	-	-	-	-	13,021	13,021	-	13,021
Total recognised income for 2006		**-**	**-**	**-**	**-**	**-**	**13,021**	**13,021**	**-**	**13,021**
Acquisition of own shares	21	-	-	-	(4,128)	-	-	(4,128)	-	(4,128)
Transfer to reserve for acquisition of treasury shares	21	-	-	20,000	-	-	(20,000)	-	-	-
Dividends relating to 2005	20	-	-	-	-	-	(10,276)	(10,276)	-	(10,276)
Balance at 31 December 2006		47,462	41,473	30,000	(20,352)	69,805	24,645	193,033	-	193,033

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

(All tabular amounts are in LTL '000 unless otherwise stated)

Consolidated cash flow statement

	Notes	Year ended 31 December	
		2006	2005
Cash flows from operating activities			
Cash generated from operations	28	17,822	14,953
Interest paid		(2,452)	(1,872)
Income tax paid		(6,970)	(2,755)
Net cash generated from operating activities		8,400	10,326
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		-	45
Purchase of property, plant and equipment	13	(20,442)	(12,366)
Purchase of intangible assets	14	(41)	(34)
Purchase of investments		-	(3)
Proceeds from investments		-	5,246
Loans granted to farmers and employees		(516)	(4,337)
Other loans granted		(1,529)	(9,961)
Proceeds from sale of property, plant and equipment		134	1,855
Government Grants received		300	-
Other loan repayments received		677	8,656
Loan repayments from farmers and employees		2,929	2,189
Interest received		594	433
Net cash used in investing activities		(17,894)	(8,277)
Cash flows from financing activities			
Dividends paid		(10,276)	(20,047)
Acquisition of treasury shares	21	(4,128)	-
Proceeds from borrowings		38,135	25,068
Repayments of borrowings		(25,232)	(14,253)
Finance lease principal payments		(260)	(301)
Net cash used in financing activities		(1,761)	(9,533)
Net decrease in cash and cash equivalents		(11,255)	(7,484)
Cash and cash equivalents at beginning of the year	18	(5,327)	2,157
Cash and cash equivalents at end of the year		(16,582)	(5,327)

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

Notes to the consolidated financial statements

1. General information

Rokiškio Sūris AB (hereinafter “the Company”) is a public listed company incorporated in Rokiškis, 160 km North–West from Vilnius, the capital of Lithuania. Company’s code 173057512, address: Pramonės St. 3, LT-42150 Rokiškis, Lithuania.

The shares of Rokiškio Sūris AB are traded on the Official List of the National Stock Exchange.

The consolidated Group (hereinafter “the Group”) consists of the Company its two branches and one subsidiary (2005: three branches). The branches and subsidiary included in the Group’s consolidated financial statements are indicated below:

	Operating as at 31 December	
Branches	**2006**	**2005**
Ukmergės Pieninė	Yes	Yes
Utenos Pienas	Yes	Yes
Eišiškių Pieninė	No	Yes

	Group’s share (%) as at 31 December	
Subsidiaries	**2006**	**2005**
Rokiškio pienas UAB *	100	-

* The only subsidiary was established as at 21 April 2006 and did not start its operations during the year ended 31 December 2006. No other assets, except of cash for LTL 10 thousand were held by the subsidiary.

All the above-mentioned branches and subsidiary undertakings are incorporated in Lithuania.

The Group’s main line of business is the production of ferment cheese and a wide range of milk products. Average number of Group’s employees during the year ended 31 December 2006 was 1,620 people (2005: 1,891 people).

2. Accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates (Note 4).

Adoption of New or Revised Standards and Interpretations

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are either not relevant to the Group's operations or do not have a material effect on the consolidated financial statements:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resource
- 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

Early adoption of standards, interpretations and amendments to published standards

The Group has not elected to early adopt any new standards, interpretations and amendments to published standards.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted:

(a) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Group will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

(b) IFRS 8, Operating Segments (effective from 1 January 2009)

IFRS 8 replaces IAS 14, Segment Reporting. It specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report additional selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group is currently assessing what impact the new IFRS will have on disclosures in its financial statements. The Group will apply IFRS 8 from 1 January 2009. At the date of the issuance of these consolidated financial statements this standard was not adopted by the EU.

(c) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)

The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Group’s operations.

(d) IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Group’s operations.

(e) IFRIC 9, Re-assessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. The management of the Group believes that this interpretation will not significantly effect the financial statements of the Group. The Group will apply this interpretation from 1 January 2007.

(f) IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group’s accounts. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(g) IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

The Interpretation addresses how to apply IFRS 2, Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Group’s operations as the Group is not involved in share-based payment arrangements. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(h) IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Group’s operations as the Group is not involved in service concession arrangements. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(i) IAS 23, Borrowing costs (Amendment, effective date for periods beginning on or after 1 January 2009)

The amended IAS 23 relates to the accounting treatment for borrowing costs incurred that relate to assets that take a substantial period of time to get ready for use or sale, removing the option of immediately recognising such costs as an expense through profit and loss and requiring them now to be capitalised. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

Endorsement by the European Union of certain of the above new or revised IFRSs effective on or after 1 January 2007 is pending. However, management decided to include also these IFRSs in the above disclosure because the European Union may require their application to periods before the endorsement.

2.2 Group accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Litas (LTL), which is the Company’s (and each of the Group entity’s) functional and presentation currency.

Litas is pegged to the Euro at an exchange rate of LTL 3.4528 = EUR 1 from 2 February 2002.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

In 2006, the Company‘ management introduced changes in useful lives previously applied to property, plant and equipment, and with effect from 2006, all items of property, plant and equipment are depreciated over the newly estimated useful lives. New and former useful lives are given in the table below:

	Year ended 31 December	
	2006	**2005**
Buildings	25-55 years	30 - 80 years
Plant & machinery	5-15 years	5 - 35 years
Motor vehicles	3-5 years	3 - 5 years
Equipment and other property, plant and equipment	3-8 years	3 - 8 years

The effect of this change in management’s accounting estimate is disclosed in Note 27.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.6).

(All tabular amounts are in LTL '000 unless otherwise stated)

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

Construction in progress is transferred to appropriate groups of property, plant and equipment when it is completed and available for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount and are included in operating profit.

2.5 Intangible assets

Software assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 1 to 5 years.

2.6 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Financial assets

The Group classifies its financial assets in a category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

2.8 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related indirect production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.9 Trade and other amounts receivable

Amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of amounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'general and administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.

(All tabular amounts are in LTL '000 unless otherwise stated)

2.10 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities on the balance sheet.

2.11 Share capital

(a) Ordinary shares

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their par value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

(b) Treasury shares

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributed incremental external costs is deducted from shareholders' equity as treasury shares until they are sold, reissued, or cancelled. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Where such shares are subsequently sold or reissued, any consideration received is presented in the consolidated financial statements as a change in shareholders' equity.

2.12 Reserves

(a) Other reserves

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. These reserves can be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. Legal reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5 per cent of net result are required until the reserve reaches 10 per cent of share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

(b) Reserve for acquisition of treasury shares

This reserve is maintained as long as the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the nominal value of treasury shares acquired.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Profit is taxable at a 15 per cent (2005: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

According to the newly adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 4 per cent for 2006 and at a rate of 3 per cent for 2007 should be paid on taxable income earned during 2006 and 2007 respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Leases – where the Group is the lessee

(a) Finance lease

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.16 Employee benefits

(a) Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

(b) Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.18 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

2.19 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Group and held as treasury shares.

2.20 Segment reporting

The Group’s single business segment is production of cheese and milk products, therefore, information on key business segment is not presented. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.21 Government grants and subsidies

Government grants are recognised at fair value where there is sufficient evidence that the grant will be received and the Group will comply with all conditions attached.

Export subsidies paid by the Government for each exported tone of products meeting certain requirements are included in sales revenue.

Government grants received to finance acquisition of property, plant and equipment are included in deferred income in the balance sheet. They are recognised as income on a straight-line basis over the useful life of related property, plant and equipment.

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

2.24 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparatives have been adjusted to take into account the re-classification of prepayments from property, plant and equipment to other receivables in order to comply with International Accounting Standard No. 16 (Note 13).

3. Financial risk management

(a) Financial risk factors

The Group’s activities are exposed to a variety of financial risks. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Market risk: foreign exchange risk

The Group operates internationally, however, its exposure to foreign exchange risk is set at minimum level, since its sales outside Lithuania are performed in euros. The exchange rate of euro and litas is fixed.

Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

Liquidity risk

Prudent liquidity risk management allows maintaining sufficient cash and availability of funding under committed credit facilities.

Interest rate risk

The Group has no significant interest-bearing assets. The Group’s policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

(b) Fair value estimation

The nominal value less impairment provision of trade receivables and the nominal value of accounts payable is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management’s estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Group could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Estimates of useful lives of property, plant and equipment

The Group has old buildings and machinery, where the useful lives are estimated based on the projected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

5. Segment reporting

Primary reporting format – business segments

The Group’s single business segment is production of cheese and milk products.

Secondary reporting format – geographical segments

All the Group’s assets are located in Lithuania. The Group’s sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Lithuania	189,360	169,927	321,131	299,452	21,553	10,512
Europe Union countries	198,075	203,294	-	-	-	-
CIS countries	120,500	64,593	-	-	-	-
Other (including USA and Japan)	10,209	35,304	-	-	-	-
	518,144	473,118	321,131	299,452	21,553	10,512

Sales are allocated based on the country in which the customers are located.

Analysis of revenue by category:

	2006	**2005**
Sales of goods	487,223	447,890
Export subsidies	21,040	14,734
Other	9,881	10,494
	518,144	473,118

Pursuant to European Commission Regulation *On definition of compensation for milk and milk product export costs*, with effect from 1 May 2004 the Company is entitled to receive subsidies for cheese exported to the countries specified in the Regulation. Export subsidies are paid for each tone of exported products that meet certain requirements attached to the Regulation. Export subsidies receivable are recorded under amounts trade and other receivables (Note 17).

(All tabular amounts are in LTL '000 unless otherwise stated)

6. Selling and marketing expenses

	2006	2005
Marketing services	7,154	8,055
Payroll expenses	5,832	5,636
Transportation services	4,733	5,256
Product image creation and advertising expenses	1,774	2,106
Repair and maintenance	1,752	1,814
Depreciation of property, plant and equipment	1,315	1,311
Warehousing services	142	20
Other expenses	1,656	1,722
	24,358	25,920

7. General and administrative expenses

	2006	2005
Payroll expenses	6,814	7,472
Taxes (other than income tax)	371	1,459
Impairment and write-offs of loans granted to farmers	2,503	1,010
Consulting expenses	765	1,041
Depreciation of property, plant and equipment	1,185	815
Repair and maintenance	581	605
Paid and accrued bonuses	4,200	518
Telecommunication and IT maintenance expenses	80	452
Insurance expenses	324	442
Write-offs of property, plant and equipment	54	357
Bank charges	212	233
Business trips	746	175
Fines	191	166
Training of employees	167	160
Membership fees	140	132
Charity, support	139	123
Reversal of impairment of inventory and inventory write-offs	-	(58)
Impairment (reversal) of amounts receivable	270	(6)
Other expenses	3,194	2,664
	21,936	17,760

8. Other operating losses

	2006	2005
Loss on disposal of subsidiaries	-	(868)
Loss on disposal of property, plant and equipment (Note 28)	(155)	(764)
Loss on disposal of investments	-	(637)
Other	(42)	-
	(197)	(2,269)

(All tabular amounts are in LTL ‘000 unless otherwise stated)

9. Expenses by nature

	2006	2005
Raw materials and consumables used	340,527	295,340
Payroll expenses	44,391	39,336
Transportation services	27,371	27,012
Depreciation and amortisation	18,677	17,728
Marketing services	7,154	8,055
Repair and maintenance	7,514	6,772
Cost of materials sold	6,125	5,632
Taxes (other than income tax)	565	1,627
Consulting expenses	765	1,041
Telecommunication and IT maintenance expenses	215	574
Other	43,953	40,270
Total cost of sales, selling and marketing expenses and general and administrative expenses	497,257	443,387

Payroll expenses include wages and salaries of LTL 29,635 thousand (2005: LTL 32,863 thousand), social security contribution costs of LTL 9,183 thousand (2005: LTL 10,301 thousand) and bonuses of LTL 518 thousand (2005: LTL 2,076 thousand).

10. Finance costs

	2006	2005
Interest expense:		
– bank borrowings	(2,432)	(1,847)
– finance leases	(20)	(25)
	(2,452)	(1,872)

11. Income tax

	2006	2005
Current tax	5,217	4,590
	5,217	4,590

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2006	2005
Profit before tax	18,238	25,590
Tax calculated at a tax rate of 19 per cent (2005: 15 per cent) (Note 2.14)	3,465	3,838
Tax non-deductible expenses	1,825	1,372
Unrecognised tax losses of subsidiaries	-	115
Income not subject to tax	(32)	(710)
Charity expenses deductible twice for tax purposes	(34)	(25)
Other	(7)	-
Tax charge	5,217	4,590

The tax authorities have carried out full-scope tax audits at the Company for the year 2001. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

12. Earnings per share

	2006	2005
Net profit attributable to shareholders	13,021	20,952
Weighted average number of ordinary shares in issue (thousands)	4,327	4,354
Basic earnings per share (LTL per share)	3.01	4.81

The Group has no dilutive potential ordinary shares, therefore, the diluted earnings per share are the same as basic earnings per share.

13. Property, plant and equipment

	Buildings	Plant & machinery	Vehicles, equipment & other	Construction in progress	Total
At 1 January 2005					
Cost	47,488	128,316	63,607	2,320	241,731
Accumulated depreciation	(10,054)	(57,431)	(34,737)	-	(102,222)
Net book amount	37,434	70,885	28,870	2,320	139,509
Year ended 31 December 2005					
Opening net book amount	37,434	70,885	28,870	2,320	139,509
Additions	919	3,012	3,700	2,847	10,478
Disposals	(1,739)	(686)	(194)	-	(2,619)
Disposal of subsidiaries	(74)	(3)	(64)	(3)	(144)
Write-offs	-	(320)	(37)	-	(357)
Transfers from CIP	1,483	1,587	232	(3,302)	-
Depreciation charge	(1,047)	(11,358)	(7,449)	-	(19,854)
Closing net book amount	36,976	63,117	25,058	1,862	127,013
At 31 December 2005					
Cost	47,354	130,827	65,455	1,862	245,498
Accumulated depreciation	(10,378)	(67,710)	(40,397)	-	(118,485)
Net book amount	36,976	63,117	25,058	1,862	127,013
Year ended 31 December 2006					
Opening net book amount	36,976	63,117	25,058	1,862	127,013
Additions	99	10,113	5,410	5,890	21,512
Disposals	(150)	(68)	(71)	-	(289)
Write-offs	(2)	(6)	(46)	-	(54)
Transfers from CIP	332	1,288	593	(2,213)	-
Depreciation charge	(1,874)	(15,576)	(7,910)	-	(25,360)
Closing net book amount	35,381	58,868	23,034	5,539	122,822
At 31 December 2006					
Cost	47,609	141,147	69,947	5,539	264,242
Accumulated depreciation	(12,228)	(82,279)	(46,913)	-	(141,420)
Net book amount	35,381	58,868	23,034	5,539	122,822

The Group has in comparative financial year reclassified LTL 1,888 thousand of prepayments from Construction in progress to other receivables (Note 17) in order to comply with International Accounting Standard No. 16.

Leased assets, where the Group is a lessee under finance lease, comprise certain equipment as at 31 December:

	2006	2005
Cost - capitalised finance leases	-	1,400
Accumulated depreciation	-	(622)
Net book amount	-	778

As at 31 December 2006, certain property, plant and equipment with a carrying value of LTL 54,624 thousand (31 December 2005: LTL 68,565 thousand) have been pledged as security for bank borrowings.

Depreciation expenses of property, plant and equipment are included in selling and marketing expenses, general and administrative expenses and cost of sales in the income statement, and in work in progress and finished goods in the balance sheet.

No borrowing costs were capitalised during the years ended 31 December 2006 and 31 December 2005.

Operating lease rentals amounting to LTL 228 thousand (2005: LTL 85 thousand) relating to the lease of property, plant and equipment are included in the income statement.

14. Intangible assets

	Negative goodwill	Software	Total
At 1 January 2005			
Cost	(4,846)	2,041	(2,805)
Accumulated amortisation	3,971	(496)	3,475
Net book amount	(875)	1,545	670
Year ended 31 December 2005			
Opening net book amount	(875)	1,545	670
Change in accounting policy	875	-	875
Additions	-	34	34
Amortisation charge	-	(444)	(444)
Closing net book amount	-	1,135	1,135
At 31 December 2005			
Cost	-	2,075	2,075
Accumulated amortisation	-	(940)	(940)
Net book amount	-	1,135	1,135
Year ended 31 December 2006			
Opening net book amount	-	1,135	1,135
Additions	-	41	41
Write-offs	-	(1)	(1)
Amortisation charge	-	(628)	(628)
Closing net book amount	-	547	547
At 31 December 2006			
Cost	-	2,039	2,039
Accumulated amortisation	-	(1,492)	(1,492)
Net book amount	-	547	547

(All tabular amounts are in LTL ‘000 unless otherwise stated)

Amortisation expenses of software and other intangible assets are included in general and administrative expenses in the income statement.

15. Other receivables

	2006	2005
Long-term loans to farmers	10,218	12,947
Long-term loans to employees	676	1,161
Less: provision for impairment of loans receivable	(830)	(846)
Long-term loans net	10,064	13,262
Prepayments	3,088	1,888
Other	15	15
	13,167	15,165

The current portion of long-term receivables is presented in Note 17.

Loans to farmers were granted with repayment terms ranging from 1 to 15 years. The annual interest rate ranges from 1 to 10 per cent. Effective interest rate was 7.56 per cent (2005: 8.35 per cent).

Long-term loans to employees were granted with repayment terms ranging from 5 to 25 years. The loans are interest free. Effective interest rate was 10.90 per cent (2005: 10.31 per cent).

Loans to employees and farmers include a certain amount of loans granted to Directors and Board member of the Group (Note 29).

In the opinion of the Group’s management, the carrying amounts of long-term receivables approximate their fair values.

16. Inventories

	2006	2005
Raw materials	5,572	5,750
Work in progress	10,776	10,722
Finished goods	81,790	50,748
Other inventory	4,565	3,895
	102,703	71,115

As at 31 December 2006, inventories with cost of LTL 45,336 thousand (as at 31 December 2005: LTL 58,043 thousand) have been pledged as security for bank borrowings.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

17. Trade and other receivables

	2006	2005
Trade receivables	52,325	58,358
VAT receivable	3,541	1,741
Current portion of long-term receivables	4,928	3,608
Export subsidies receivable (Note 5)	9,912	7,405
Grant receivable	2,232	-
Receivables on disposal of property, plant and equipment	-	28
Prepayments and deferred charges	689	537
Other amounts receivable	9,796	10,163
Less: provision for impairment of other amounts receivables	(2,200)	-
Other amounts receivable net	7,596	10,163
	81,223	81,840

As at 31 December 2006, certain trade accounts receivable of LTL 14,972 thousand (as at 31 December 2005: LTL 8,441 thousand) have been pledged as security for bank borrowings.

Current portion of long-term receivables and other amounts receivable include a certain amount of loans and other receivables from related parties (Note 29).

18. Cash and cash equivalents

	2006	2005
Cash at bank and in hand	669	3,184
	669	3,184

Cash in certain bank accounts and future cash inflows into these accounts up to LTL 14,250 thousand (2005: LTL 12,500 thousand) have been pledged as security for bank borrowings.

Group’s cash balance for LTL 872 thousand was frozen as at 31 December 2006, for the payment guarantees issued (Note 26).

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2006	2005
Cash and bank balances	669	3,184
Bank overdrafts (Note 23)	(17,251)	(8,511)
	(16,582)	(5,327)

19. Share capital

As at 31 December 2006, the share capital was comprised of 4,746,270 ordinary registered shares with par value of LTL 10 each. All the shares are fully paid. There were no changes in share capital during the year (see Note 21).

(All tabular amounts are in LTL '000 unless otherwise stated)

20. Dividends

The dividends per share, excluding treasury shares, declared in respect of 2005 and 2004 and paid in 2006 and 2005, were LTL 2,36 and LTL 5 or equivalent amounting to a total dividend of LTL 10,276 thousand and 21,771 thousand, respectively. There were no dividends proposed or declared in respect of 2006 as at the date of approval of these financial statements.

21. Treasury shares

	2006		2005	
	Number	**Amount**	**Number**	**Amount**
At beginning of year	392,047	16,224	392,047	16,224
Additions	82,570	4,128	-	-
At end of year	474,617	20,352	392,047	16,224

On 22 December 2006 the Company's shareholders made a decision to reduce the Company's authorized share capital by LTL 4,746 thousand through cancellation of 474,617 own shares previously purchased. As at 31 December 2006, no amendments were made to the Company's Articles of Association in respect of this decision, correspondingly reduction of share capital was not recognized in the financial statements for the year ended 31 December 2006. Management of the Company expects that the process will be finalized in 2007.

On 22 December 2006 the Company's shareholders made a decision to increase the reserve by LTL 20,000 thousand for acquisition of own shares.

22. Other reserves

	2006	2005
Distributable reserve	65,091	65,091
Non-distributable reserve	4,714	4,714
	69,805	69,805

Non-distributable reserves of LTL 3,593 thousand can only be used for share capital increase and non-distributable reserves of LTL1,121 thousand (legal reserve) can only be used for offsetting future operating losses, if any.

23. Borrowings

	2006	2005
Current		
Short-term bank borrowings	59,086	36,973
Bank overdrafts	17,251	8,511
Current portion of long-term bank borrowings	-	4,954
Finance lease liabilities	-	263
	76,337	50,701
Non-current		
Long-term bank borrowings	-	4,253
	-	4,253
Total borrowings	76,337	54,954

(All tabular amounts are in LTL '000 unless otherwise stated)

The bank borrowings are secured over certain of the property, plant and equipment (Note 13), inventories (Note 16), trade receivables (Note 17), cash in certain bank accounts (Note 18) and a bill of exchange issued for LTL 13,811 thousand.

According to loan agreement signed with SEB Vilniaus Bankas, the Company has a commitment to ensure that over the loan period its net borrowings/ EBITA ratio will be not higher than 1.7. As at 31 December 2006, the Company did not comply with this commitment, however it has no impact on presentation of borrowings in the financial statements as the above mentioned borrowings are presented under current liabilities.

Weighted average interest rates effective as at 31 December (per cent) were as follows:

	2006	2005
Long-term bank borrowings	-	3.72
Short-term bank borrowings	4.04	3.06
Finance lease liabilities	4.33	4.33
Bank overdrafts	4.31	3.76

The carrying amounts of the Group's borrowings (excluding finance lease liabilities) are denominated in the following currencies:

	2006	2005
Euro	55,718	44,495
Litas	20,619	10,196
	76,337	54,691

Fair value of borrowings approximates to their carrying values.

The facilities expiring within one year are short-term loans subject to review at various dates during 2006. Weighted average interest rate of these facilities approximated to 4.19 per cent (2005: 3.75 per cent).

The exposure of the borrowings (excluding finance lease liabilities) of the Group to interest rate changes and the periods in which the borrowings are repriced are as follows:

	6-12 or less months	1-5 years	Total
At 31 December 2006			
Total borrowings	76,337	-	76,337
At 31 December 2005			
Total borrowings	76,337	-	76,337

24. Deferred income

	2006	2005
Government grants at beginning of year	8,730	10,690
Government grants recognised	2,532	-
Credited to income statement	(2,179)	(1,960)
	9,083	8,730
Less non-current portion	(6,703)	(6,551)
Current portion	2,380	2,179

(All tabular amounts are in LTL ‘000 unless otherwise stated)

Deferred grants are related to acquisition of property, plant and equipment and are donated by the European Union funds and Lithuanian Government under the SAPARD and other programmes. The Company has no obligation to repay or otherwise refund the grants received unless it breaches the contractual provisions contained in the agreements concluded with the grantors.

25. Trade payables and other amounts payable

	2006	2005
Trade payables	40,150	38,245
Salaries, social security and taxes	2,892	1,584
Other payables	335	343
Accrued charges	940	963
	44,317	41,135

26. Contingent liabilities and commitments

Contingent liabilities

	2006	2005
Guarantees issued by the bank to third parties on behalf of the Group	4,269	2,638
Guarantees issued by the Group on behalf of farmers and agricultural companies	740	1,441
	5,009	4,079

The Group has given these guarantees in the ordinary course of business and anticipates that no material liabilities will arise.

Capital commitments

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements was LTL 1,501 thousand (31 December 2005: LTL 1,490 thousand)

Operating lease commitments – where the Group is the lessee

The Group leases passenger cars and premises under operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
Not later than 1 year	298	583
Later than 1 year but not later than 5 years	546	251
	844	834

27. Change in accounting estimates

With effect from 2006, the Company introduced changes in useful lives applied to property, plant and equipment. Useful lives were changed by the Company's management to reflect more accurately the use of economic benefits of assets in the Company‘s business activities and report more accurately the value of assets at the end of the reporting period.

(All tabular amounts are in LTL '000 unless otherwise stated)

In the *Accounting policies* of the notes to the financial statements, new and former useful lives are presented. The estimate of useful life applied by the Company's management was accounted for prospectively from 1 January 2006, depreciation charges for all assets are accounted based on newly estimated useful lives. The effect of change in this accounting estimate is disclosed in the table below:

Items affected in the financial statements	**Amount of estimate**	**Amount before change in estimate**	**Amount after change in estimate**
Effect on the assets			
Net book value of property, plant and equipment	(5,132)	127,954	122,822
Inventories	2,021	100,682	102,703
Total	**(3,111)**	**228,636**	**225,525**
Effect on the result of operations			
Cost of sales	(3,752)	(468,950)	(472,702)
Operating expenses	(89)	(24,269)	(24,358)
Income tax	730	(5,947)	(5,217)
Total	**(3,111)**	**(499,166)**	**(502,277)**

The effect on future periods was not disclosed since it is impracticable to estimate the amount.

(All tabular amounts are in LTL ‘000 unless otherwise stated)

28. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2006	2005
Net profit before tax	18,238	25,590
Adjustments for:		
– depreciation (Note 13)	25,360	19,854
– amortisation (Note 14)	629	444
– write-off of property, plant and equipment and intangible assets (Notes 13 and 14)	54	357
– loss on disposal of property, plant and equipment (Note 8)	155	764
– interest expense (Note 10)	2,459	1,872
– interest income (Note 5)	(594)	(526)
– write-offs of inventories	-	11
– impairment of other loans receivable (Note 7)	2,200	-
– unrealised currency exchange gain, net	-	224
– impairment and write-offs of doubtful and bad receivables (Note 7)	270	9
– impairment and write-offs of loans granted to farmers (Note 7)	303	1,010
– accrual for vacation reserve	(75)	-
– loss on disposal of subsidiaries (Note 8)	-	868
– loss on disposal of investments (Note 8)	-	637
– amortisation of government grants received (Note 25)	(2,179)	(1,960)
Changes in working capital		
– receivables and prepayments	640	(20,253)
– inventories	(31,588)	(16,185)
– payables	1,957	2,237
Cash generated from operations	17,822	14,953

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2006	2005
Net book amount (Note 13)	289	2,619
Loss from disposal of property, plant and equipment (Note 8)	(155)	(764)
Proceeds from disposal property, plant and equipment	134	1,855

(All tabular amounts are in LTL ‘000 unless otherwise stated)

29. Related party transactions

The Group is controlled by Pieno Pramonės Investicijų Valdymas UAB (incorporated in Lithuania) and Mr. A.Trumpa (the Company’s Managing Director), which together own 47.87 per cent of the Company’s share capital. Pieno Pramonės Investicijų Valdymas UAB is controlled by Mr. A.Trumpa (through the majority of shareholding). The remaining 52.13 per cent of the shares are widely held (including treasury shares of 10%).

Pieno Pramonės Investicijų Valdymas UAB, the members of the Board and Senior Management and their close family members are treated as related parties.

Certain cooperative societies, engaged in the production of milk, are treated as other related parties of the Company through close family relationships with members of the Senior Management and because certain of the Company’s employees have significant influence over day-to-day activities of these societies.

(i) The following transactions were carried out with related parties:

	2006	2005
Purchase of milk from other related parties	56,132	18,184
Sales of utility services to other related parties	1,687	484
Interest charges on credit facility	277	227

(ii) Year end balances arising from transactions with related parties:

	2006	2005
Non-interest bearing loans granted to Senior Management (and their families)	3,065	5,308
Credit facility granted to Pieno Pramonės Investicijų Valdymas UAB	7,351	6,358
Non-interest bearing loans received from other related parties (Senior Management and their families)	-	2,800
Trade payables to other related parties (Senior Management and their families)	1,853	2,862

(iii) Compensation of key management

	2006	2005
Salaries	1,024	838
Bonuses	4,200	2,550
Social Insurance Contributions	337	260
	5,561	3,648

Key management includes 12 (2005: 12) members of the Board and Senior Management.

30. Subsequent events

After 31 December 2006, a subsidiary Rokiškio Pienas UAB started trade in dairy products. 512 individuals were employed from the branches of Rokiškio Sūris AB in Ukmergė and Utena.
Based on the Resolution of the Board of Directors as of 2 January 2007, the authorized share capital of a subsidiary Rokiškio Pienas UAB should be increased from LTL 10 thousand to LTL 26,859 thousand by way of in-kind (non-cash) contribution made by Rokiškio Sūris AB.

Subsequent to 31 December 2006, the Company declared dividends proposed for 2006 amounting to LTL 2.36 per share.