



# Vilkyškių pieninė AB

Consolidated Interim Financial Statement  
of 2008

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**Vilkyškių pieninė AB****About the company**

Name of the Issue	Public Company Vilkyškių pieninė
Authorized capital	LTL 11 943 000
Registered office	Vilkyškiai, Pagėgiai municipality
Telephone number	8-441 55330
Fax number	8-441 55242
E-mail address	centras@cheese.lt
Legal – organizational form	public company
Date and place of registration	The 10 <sup>th</sup> of May 1993
Date and place of re-registration	The 10 <sup>th</sup> of December 2005, Tauragė Branch of Public Institution Center of Registers
Code in the Register of Enterprises	277160980
Internet address	<a href="http://www.cheese.lt">http://www.cheese.lt</a>

**Management Board of Vilkyškių pieninė AB**

The Management Board of the Issuer consists of the following persons: Gintaras Bertašius, Sigitas Trijonis, Rimantas Jancevičius, Ramūnas Šniepis, Andrej Cyba and Linas Strėlis

Director General of the Company is Gintaras Bertašius.

**Significant accounting policies**

Consolidated financial statements of Vilkyškių pieninė AB (company's code 277160980) are prepared following International Standards of Financial Accountability.

## Balance sheet

Thousand LTL	31/12/2008	31/12/2007
<b>Assets</b>		
Long-term tangible assets	71 656	46 252
Goodwill	23 732	1 033
Intangible assets	418	41
Deferred tax assets	27	27
Long-term amounts receivable	1 617	950
<b>Total long-term assets</b>	<b>97 450</b>	<b>48 303</b>
Resources	20 679	16 452
Trading and other amounts receivable	19 386	13 675
Cash and cash equivalents	195	1 055
<b>Total short-term assets</b>	<b>40 260</b>	<b>31 182</b>
<b>Total assets</b>	<b>137 710</b>	<b>79 485</b>
<b>Equity</b>		
Share capital	23 339	9 353
Supplements of shares	9 427	-
Reserves	-2 038	9 355
Undistributed assets		13 442
<b>Total equity attributed to shareholders of the Company</b>	<b>30 728</b>	<b>32 150</b>
<b>Minority interest</b>	<b>67</b>	<b>42</b>
<b>Total equity</b>	<b>30 795</b>	<b>32 192</b>
<b>Liabilities</b>		
Loans and financial leasing liabilities	51 246	18 177
Capital subsidies	8 922	4 607
Deferred profits tax liabilities	2 682	2 626
<b>Total long-term liabilities</b>	<b>62 850</b>	<b>25 410</b>
Loans and financial leasing liabilities	19 301	9 163
Profits tax payable	0	1 175
Trade and other amounts payable	24 764	11 545
<b>Total short-term liabilities</b>	<b>44 065</b>	<b>21 883</b>
<b>Total liabilities</b>	<b>106 915</b>	<b>47 293</b>
<b>Total equity and liabilities</b>	<b>137 710</b>	<b>79 485</b>

## Profit and loss account

Thousand LTL	31/12/2008	31/12/2007	10-12/2008	10-12/2007
Sales revenue	155 303	136 274	37 629	93 158
Cost price of sales	-149 664	-114 230	-33 100	-82 038
<b>Gross profit (loss)</b>	5 639	22 044	4 529	11 120
Other operating income, net	998	21	363	-14
Expenditure of distribution	-6 016	-2 052	-2 049	-1 545
Administrative expenditure	-10 276	-6 321	-5 085	-4 898
<b>Operating profit (loss)</b>	-9 655	13 692	-2 242	4 663
Income from financial activity	539	93	-10	75
Expenditure from financial activity	-4 242	-1 468	-1 393	-1 099
<b>Net financing costs</b>	-3 703	-1 375	-1 403	-1 024
<b>Profit (loss) before taxes</b>	-13 358	12 317	-3 645	3 639
Profit tax expenditure	-191	-2 303	-129	-749
<b>Net profit (loss)</b>	-13 549	10 014	-3 774	2 890
Attributable to:				
Shareholders of the company	-13 549	10 014	-3 819	2 903
Minority interest	45	0	90	-13
<b>Net profit (loss)</b>	-13 504	10 014	-3 729	2 890
Profit (loss) per share (LTL)	-1.44	1.07		

## Cash flow statement

Thousand LTL	2008 12 31	2007 12 31
<b>Cash flows from operating activities</b>		
Net profit	-13504	10014
Adjustments:		
Depreciation of long-term tangible assets	5872	3776
Amortization of intangible assets	92	28
Capital subsidies recognized as income	-362	-18
Result of transfer of long-term tangible assets	-83	
Interest expenditure, in net value	3494	1375
Income tax expenditure	191	2303
<b>Cash flows from ordinary activities before changes in the working capital</b>	<b>-4491</b>	<b>17478</b>
Change in resources	-1081	-2909
Change in amounts receivable	-909	-1813
Change in trading and other amounts payable	-18950	-1520
	<b>-25431</b>	<b>11236</b>
Paid / received income, net value	-3494	-1375
Income tax paid	955	-1582
<b>Cash flows from operating activities</b>	<b>-27970</b>	<b>8279</b>
<b>Cash flows form investing activities</b>		
Acquisition of long-term tangible assets	-19315	-8911
Acquisition of long-term intangible assets	106	-41
Income from sale of long-term tangible assets	18	
Transfer of short-term investments	13986	
Investment into daughter-enterprise, minus acquired money	-30345	
<b>Net cash flows from investing activities</b>	<b>-45242</b>	<b>-8952</b>
<b>Cash flows from financing activities</b>		
Loans received	37289	13327
Repayment of borrowings	-10999	-9514
Payment of financial lease liabilities	-1158	-1710
Issue of shares		
Dividends paid	-2030	-2757
Capital subsidies received	1322	1491
<b>Net cash flows from financing activities</b>	<b>24424</b>	<b>837</b>

Change in cash and cash equivalents	38410	164
Net cash and cash equivalents as on the 1 <sup>st</sup> of January	1055	891
<b>Net cash and cash equivalents as on the 31<sup>th</sup> of December</b>	<b>195</b>	<b>1055</b>

## Statement on changes in equity

Equity attributable to the Group

Thousand LTL	Share capital	Supplemen ts of shares	Revaluatio n reserve	Compulsor y reserve	Undistrib ted result	In total	Minority interest	Total equity
On the 1 <sup>st</sup> of January 2007								
Net profit	9353	8764	919	4967	24003	51	24054	9353
Increase of value of long- term tangible assets*				10014	10014		10014	
Transferred to reserves		-344		423	79		79	
Dividends				88	88	14	102	
Other				23	23	-23	0	
Loss not included in loss and profit account			16	-16	0		0	
On the 31 December 2007				-2057	-2057		-2057	
				0	0		0	
On the 1 <sup>st</sup> of January 2008	0	0			0		0	0
Net loss	9353	8420	935	13442	32150	42	32192	9353
Transfers from reserves								
Transfers to reserves							0	
Dividends	9353	8420	935	13442	32150	42	32192	9353
Issue of Company's shares				-13549	-13549	45	-13504	
Changes of the Group		-423		423	0		0	
On the 31 December 2008	2590	11396			13986		13986	2590

## Explanatory notes

In Vilkyškiai the dairy was established in 1934, in 1985 it was closed and equipment was disassembled. In 1993 a group of people decided to recreate the company and in May of that year they have started the reconstruction in the premises of the former dairy. In November the company started separating milk, after a year the company started producing fermented cheese, and after two years butter production workshop has been opened. All the necessary service structure has been created, all dairy equipment has been changed or bought, new workshops (cheese workshop, salting workshop, freezing chamber, ripening workshop) have been built.

Vilkyškių pieninė AB is one of the most up-to-date cheese factories in Lithuania, occupying about 15 percent of Lithuanian cheese production market. According to this criterion, the company takes the fourth place among the producers of the country. Internal capacity is always increasing in the company as well: the company is increasing cheese assortment, last year it launched whey processing workshop where whey is processed into the whey concentrate. The assortment of Vilkyškių pieninė AB consists of even 11 cheese types of 56 different names and butter and butter blends of 7 names.

Vilkyškių pieninė AB started expanding in January 2006 when it has acquired controlling portfolio of shares of the company Modest UAB. Then Vilkyškių pieninė AB added to its assortment of cheeses Mozzarella cheese. This year one other strong and perspective company joint to the group of Vilkyškių pieninė AB. On the 28<sup>th</sup> of April 2008 the company finally finished the transaction of Kelmės pieninė AB acquisition and took over the title of ownership to 99.09 % of company's shares. As Kelmės pieninė AB has been connected to the group of companies of Vilkyškių pieninė AB, the company entered the market of fresh products. Kelmės pieninė AB specializes in the production of curd products.

The main clients of the company are all major Lithuanian trade networks, purchasers of the EU countries and Russia. At present Prussia, Maasdam, Memel Blue and Mozzarella cheeses of higher added value are the most famous and mostly liked. The group of companies, taking advantage of fresh products' assortment of Kelmės pieninė AB, is actively entering the markets of Latvia, Estonia and other countries, and this allows for the group of companies to exploit better its productive capacities. As it has been planned, the joining of Kelmės pieninė AB provides with the possibility to exploit effectively common strategy of marketing as well as to use human resources productively. Common departments of trade and raw material procurement contribute to the effectiveness as well.

427 employees work in *Vilkyškių pieninė AB*, and together with *Modest UAB* and *Kelmės pieninė AB* the total number of employees reaches 712.

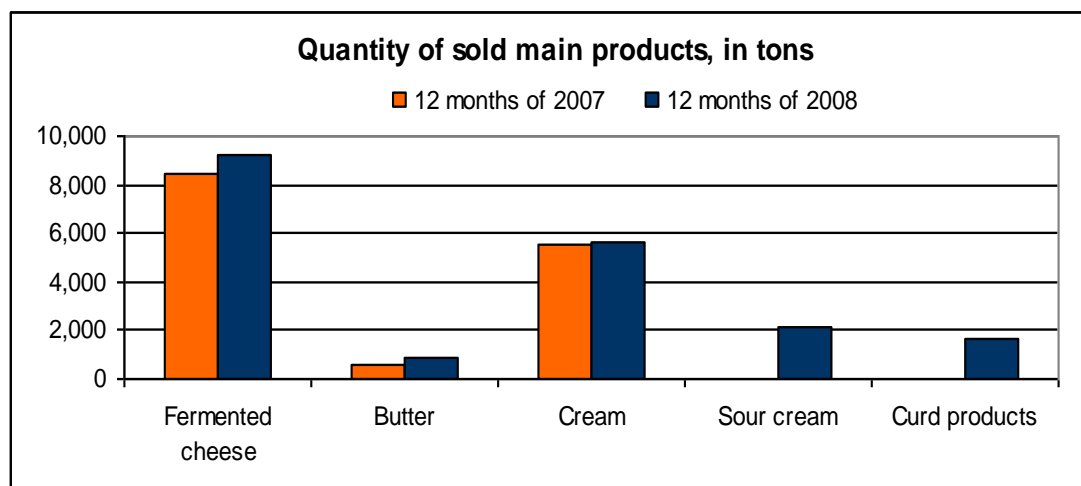
Year 2007 was non-traditional and especially successful because the demand of dairy products exceeded the supply and as a result the prices of production soared significantly,



however, year 2008 was loss-making due to the decreased demand and slumped prices of production. Preliminary consolidated loss of the year 2008 reached LTL 13 million, whereas the reappraisal of stock in the end of 2008 compounded LTL 3 million thereof. The 4<sup>th</sup> quarter was more successful. Without taking into account the reappraisal of stock, the loss suffered by the group reached only LTL 600 thousand. Low prices of dairy products, which were conditioned by the excess of production in Europe, as well as the reappraisal of stock were the main causes of loss, suffered by the group of companies, also during 2008 the Company faced non-recurring expenses due to acquisition and integration of AB „Kelmės pieninė“.

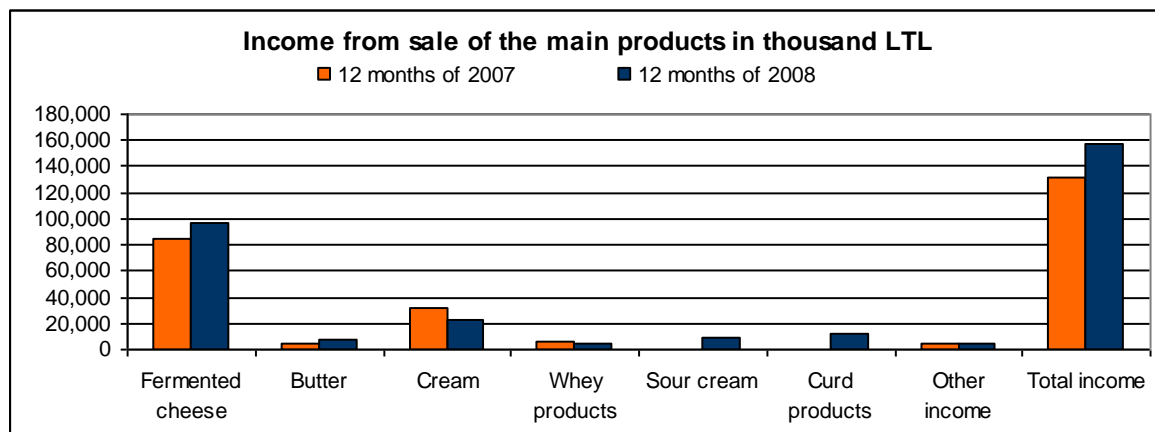
The Company expects that the year 2009 will be more successful because the prices of raw milk are lower compared with the year 2008, and the expenditures of production, management and administration have been cut down significantly.

In the nearest future the Company plans to automate purposefully the processes of production and to expand the capacities of production. Moreover, the Company plans to strengthen the trademarks of certain products both in Lithuanian and in foreign markets, as well as to expand the assortment of production by introducing to the market new exclusive brands of cheese. This year in Tauragė *Modest* UAB launched a new line of Mozzarella cheese. This summer the Company entered into the markets of the Balkans and of the new EU member states. As the economics is slowing down, the Company searches for new markets and orients to the production of products with higher surplus value.



**Quantity of sold main products, in tons**

Quantity of sold main products, in tons	12 months of 2007	12 months of 2008
Fermented cheese	8 432	9 265
Butter	600	869
Cream	5 533	5 641
Sour cream	-	2 150
Curd products	-	1 618



<b>Income form sale of the main products in thousand LTL</b>	<b>12 months of 2007</b>	<b>12 months of 2008</b>
Fermented cheese	84 061	96 063
Butter	4 127	6 832
Cream	32 405	22 692
Whey products	6 533	4 543
Sour cream	-	9 662
Curd products	-	12 277
Other income	9 148	3 234
<b>Total income</b>	<b>136 274</b>	<b>155 303</b>

## Material events

From the 1<sup>st</sup> of January 2008 shares of Vilkyškių pieninė AB have been quoted in the Official List of Vilnius Stock Exchange.

On the 31<sup>st</sup> of January 2008 Vilkyškių pieninė AB has concluded the contract on the purchase of 99.09 percent of shares of Kelmės pieninė AB. In March Vilkyškių pieninė AB received the permission from the Competition Board to acquire up to 100 percent of shares of Kelmės pieninė AB

On the 4<sup>th</sup> of March 2008 Vilkyškių pieninė AB was issued ISO Certificates of Quality Management and Food Safety Management. ISO 22000 Standard of Food Safety Management System demonstrates that food safety risk is controlled in the entire food management chain of Vilkyškių pieninė AB. ISO 9001 Standard of Quality Management specifies requirements for quality management systems, including documentation requirements and requirements for processes of planning, management of resources, product realization, measurement, analysis and improvement. This certificate demonstrates that a company is capable of managing and improving the quality of its supplied products and services, and its production meets with the requirements of customers and law.

On the 7<sup>th</sup> of March 2008 the Extraordinary General Meeting of Shareholders decided to increase Company's authorized capital by issuing a new emission of 2,590,000 shares, with the redemption price of a new emission not lower than LTL 5.40 per share. The money received from the increase of the authorized capital was used to acquire Kelmės pieninė AB.

The Extraordinary General Meeting of Shareholders decided to increase the number of Management Board members of Vilkyškių pieninė AB to 6 members, electing Linas Strėlys and Andrejus Cybas, who is the representative of Finasta UAB, as new members.

On the 17<sup>th</sup> of April 2008 Vilkyškių pieninė AB presented the prospectus of share emission registration.

On the 17<sup>th</sup> of April 2008 Vilkyškių pieninė AB presented to the Securities Commission of the Republic of Lithuania the prospectus of 2 590 000 units of shares emission registration. The Securities Commission of the Republic of Lithuania approved the prospectus and the new emission will be added to the present emission that is being quoted in the market.

On the 28<sup>th</sup> of April 2008 Vilkyškių pieninė AB finally finished the transaction of Kelmės pieninė AB acquisition and took over the title of ownership to 99.09 % of company's shares. Henceforth the Vilkyškiai Group will consist of the following four companies: Vilkyškių pieninė AB, Modest UAB, Kelmės pieninė AB and Kelmės pieno centras UAB. The results of the Group will be started to be consolidated since the moment of acquisition and they will be reflected already in the financial statements of the 1<sup>st</sup> half-year of 2008.

On the 10<sup>th</sup> of May 2008 the prospectus of ordinary registered shares of Vilkyškių pieninė AB was approved.

On the 9<sup>th</sup> of May 2008 the Securities Commission of the Republic of Lithuania during the meeting approved the prospectus of ordinary registered shares of Vilkyškių pieninė AB, which was intended for the inclusion of these shares into the Official Trade List of Vilnius Stock Exchange. The number of ordinary registered shares was 2 590 000. Total nominal value of the emission was LTL 2 590 000, where the nominal value of one share was LTL 1.

The 30<sup>th</sup> of May 2008: announcement of a person/group about the acquisition /loss of portfolio of shares.

The 6<sup>th</sup> of May 2008: announcement of a person/group about the acquisition /loss of portfolio of shares.

Modest UAB, which is a daughter enterprise of Vilkyškių pieninė AB, introduced a new production line of Mozzarella cheese on the 24<sup>th</sup> of September 2008. The value of the project reaches about LTL 4 million (EUR 1.16 million), LTL 1.5 million (EUR 0.43 million) of which is the support of the European Union. As a result, the company will be able to produce more than 10 tones of Mozzarella cheese per twenty four hours, whereas until now the company produced only 0.5 tones. The company will have the possibility to produce dairy products for local market under better conditions as well as to export the well-liked Mozzarella cheese abroad.