AB Pieno Žvaigždės

Annual accounts for 2007

Contents

Company details

AB Pieno Žvaigždės

Telephone:	+370 5 246 1414
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Company code:	124665536
Registered:	Laisvės pr. 125, Vilnius, Lithuania

Board of Directors

Julius Kvaraciejus, Chairman
Virginijus Jankauskas
Voldemaras Klovas
Aleksandr Smagin
Valentinas Paura
Kristina Mileiko
Regina Kvaraciejienė
Kjell Lennart Carlsson
Hans Mideus
Paul Bergqvist

Management

Aleksandr Smagin, General Director

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas
AB Bankas Hansabankas
AB DnB Nord Bankas

Management's statement on the annual financial statements

The Management has today discussed and authorized for issue the annual financial statements and the annual report and signed them on behalf of the Company.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the annual financial statements give a true and fair view.

We recommend the annual accounts to be approved at the General Shareholders meeting.

Vilnius, 28 February 2008

Management:

Aleksandr Smagin
General Director

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Independent auditor's report to the shareholders of AB Pieno Žvaigždės

We have audited the accompanying financial statements of AB Pieno Žvaigždės, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB Pieno Žvaigždės as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year 2007 set out on pages 41-85 of the Annual Accounts and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

Klaipėda, 28 February 2008
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
Certified Auditor

Income statement

For the year ended 31 December

Thousand Litas	Note	2007	2006
Revenue	1	663 379	545 033
Cost of sales		(517 203)	(441 667)
Gross profit		146 176	103 366
Other operating income, net	2	1 151	1 220
Sales and administrative expenses	3	(97 572)	(76 203)
Operating profit before finance costs		49 755	28 383
Finance income	4	188	273
Finance expenses	5	(9 039)	(5 353)
Finance income/expenses, net		(8 851)	(5 080)
Profit before tax		40 904	23 303
Corporate income tax	6	(7 599)	(4 811)
Profit for the year		33 305	18 492
Earnings per share (Litas)	7	0.61	0.34
Diluted earnings per share (Litas)	7	0.61	0.34

The notes, set out on pages 9 to 40, are an integral part of these financial statements.

Balance sheet

At 31 December

Thousand Litas	Note	2007	2006
Assets			
Property, plant and equipment	8	239 047	187 474
Intangible assets	9	1 724	1 811
Investments available for sale	10	275	275
Long-term receivables		6 314	350
Deferred tax	17	-	1 429
Total non-current assets		247 360	191 339
Inventories	11	75 758	51 206
Receivables	12	50 809	76 062
Cash and cash equivalents	13	2 702	1 407
Total current assets		129 269	128 675
Total assets		376 629	320 014
Equity			
Share capital		54 205	54 205
Share premium		27 246	27 246
Own shares		(4 108)	(1 108)
Reserves		28 294	12 641
Retained earnings		52 875	30 376
Total equity	14	158 512	123 360
Liabilities			
Government grants	15	2 083	3 073
Interest-bearing loans and borrowings	16	99 366	119 817
Deferred tax	17	1 050	-
Total non-current liabilities		102 499	122 890
Provisions	19	870	-
Interest-bearing loans and borrowings	16	60 071	23 953
Income tax payable		3 790	94
Trade and other amounts payable	18	50 887	49 717
Total current liabilities		115 618	73 764
Total liabilities		218 117	196 654
Total equity and liabilities		376 629	320 014

The notes, set out on pages 9 to 40, are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2007

Thousand Litas	Note	2007	2006
Cash flows from operating activities			
Profit before tax		40 904	23 303
Adjustments:			
Depreciation and amortisation	8, 9	40 111	34 997
Amortisation of government grants	15	(2 033)	(2 093)
Result of disposal of property, plant and equipment		(736)	(368)
Change in impairment loss of non-current assets	8	(714)	(1 375)
Impairment loss of receivables	3	73	650
Change in vacation reserve	18	1 056	26
Change in provision	19	870	-
Change in impairment loss of inventories		3 544	-
Interest income/expenses, net	4,5	8 660	5 171
Cash flows from ordinary activities before changes in the working capital		91 735	60 311
Change in inventories		(28 096)	(12 153)
Change in receivables		19 216	(20 917)
Change in trade and other payable amounts		1 353	13 200
Cash flows from operating activities		84 208	40 441
Interest paid		(8 819)	(4 970)
Income tax paid		(4 179)	(5 259)
Net cash flow from operating activities		71 210	30 212
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	(74 122)	(41 372)
Acquisition of intangible assets	9	(782)	(525)
Proceeds on sale of property, plant and equipment		4 294	867
Proceeds on disposal of investments held for sale		-	75
Interest received		159	53
Net cash flow used in investing activities		(70 451)	(40 902)
Cash flows from financing activities			
Loans received		57 781	46 608
Repayment of borrowings		(29 036)	(19 262)
Issue (redemption) of shares		(3 000)	-
Dividends paid		(10 779)	(9 432)
Payment of finance lease liabilities		(15 473)	(10 711)
Government grants received	15	1 043	50
Net cash from/(used in) financing activities		536	7 253
Change in cash and cash equivalents		1 295	(3 437)
Cash and cash equivalents at 1 January		1 407	4 844
Cash and cash equivalents at 31 December		2 702	1 407

The notes, set out on pages 9 to 40, are an integral part of these financial statements.

Statement on changes in equity

Thousand Litas	Note	Share capital	Share premium	Own shares	Compulsory reserve	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2006		54 205	27 246	(1 108)	5 420	3 894	11 491	13 119	114 267
Profit allocation							(7 991)	7 991	
Dividends								(9 432)	(9 432)
Depreciation of revaluated part						(173)		206	33
Net profit for 2006								18 492	18 492
As at 31 December 2006		54 205	27 246	(1 108)	5 420	3 721	3 500	30 376	123 360
As at 1 January 2007		54 205	27 246	(1 108)	5 420	3 721	3 500	30 376	123 360
Profit allocation							200	(200)	
Dividends								(10 779)	(10 779)
Acquisition of own shares				(3 000)					(3 000)
Revaluation of non-current assets						15 626			15 626
Depreciation of revaluated part						(173)		173	
Net profit for 2007								33 305	33 305
As at 31 December 2007	14	**54 205**	**27 246**	**(4 108)**	**5 420**	**19 174**	**3 700**	**52 875**	**158 512**

The notes, set out on pages 9 to 40, are an integral part of these financial statements.

Notes to the financial statements

The head office of AB Pieno Žvaigždės ("the Company") is located in Vilnius, Lithuania. AB Pieno Žvaigždės was established by way of merger of stock companies Mažeikių Pieninė, Pasvalio Sūrinė and Kauno Pienas.

As at 31 December 2003 the Company owned 64,2% shares of the subsidiary AB Panevėžio Pienas. During the year 2004 the Company acquired the remaining shares of AB Panevėžio Pienas. As of 30 November 2004 AB Panevėžio Pienas was merged to AB Pieno Žvaigždės and acquired the status of a branch.

The main office of the Company is located in Vilnius and the branches – in Mažeikiai, Pasvalys, Kaunas and Panevėžys. The Mažeikiai branch has divisions in Akmenė and Skuodas.

Ordinary shares of the Company are quoted in the Vilnius Stock Exchange.

The Company is engaged in production and sales of milk products to retail stores directly and through distributors.

As at 31 December 2007 the Company had 2,706 employees (2006: 2,707 employees)

The financial statements were approved by the Board on 28 February 2008.

Significant accounting policies

Statement of compliance

These are the financial statements of a separate company AB Pieno Žvaigždės, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union, further to the IAS Regulation (EC 1606/2002).

Basis of preparation

The financial statements are presented in Litas that is the functional currency of the Company, and are prepared on the historical cost basis, except for investments which are stated at fair value and non-current assets for sale which are carried at the lower of the carrying amount and fair value less anticipated sales costs. Land and buildings are stated at revaluated value.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the financial statements

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs adopted in the EU that have significant effect on the financial statements are discussed on page 20.

The accounting policies of the Company, set out below, have been applied consistently to all periods presented in these financial statements, except for those which changed due to changes in previously valid IFRS and the new IFRSs effective as of 1 January 2007.

Derivative financial instruments

The Company did not use any derivative financial instruments nor maintained any risk hedging accounting.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the fair value was determined. The Company‘s transactions are accounted for in Litas..

Property, plant and equipment

Owned assets

Property, plant and equipment (except for land and buildings) are stated at cost less accumulated depreciation and impairment losses. Buildings are stated at a revaluated value less accumulated depreciation and impairment losses.

The Company carried out the revaluation of buildings as at 31 December 2004. An increase in the value of the buildings amounted to 4,066 tLTL net of deferred tax and was recorded under the revaluation reserve as at 31 December 2004. A decrease in the value of the buildings amounted to 8,605 tLTL and was recorded under operating costs in the income statement for 2004.

Notes to the financial statements

As at 31 December 2007 the Company performed one more revaluation of the buildings. An increase in the value of 18,381 tLTL (net of deferred tax liability of 2,755 tLTL) was recognised in equity under the revaluation reserve. An increase in value of the buildings amounting to 1,721 tLTL was recognised in the income statement for 2007 as income because prior to 1 January 2007 an impairment loss was recognised for the mentioned assets. The impairment loss of the assets amounted to 1,007 tLTL and was recognised in the income statement for 2007.

The revaluation reserve is recycled to retained earnings corresponding to depreciation and/or disposal of revalued buildings.

Cost of self-constructed property, plant and equipment includes costs related to materials and direct labour costs as well as related indirect costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over the expected useful lifetime.

Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets used by way of finance lease are recognised as assets of the company and are stated at the lower of their fair value in the beginning of the lease and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

Costs incurred when replacing a component part of an item of property, plant and equipment are capitalised only upon write-off of the carrying amount of the component and if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the component part can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buildings 20 - 40 years
- machinery and equipment 10 - 12 years
- transport vehicles and other assets 4 - 20 years

Notes to the financial statements

Intangible assets

Intangible assets acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Costs related to internally generated goodwill and trade marks are recognised in the income statement as costs when incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are 1 – 3 years.

Goodwill

Goodwill (positive and negative) represents the difference between the acquisition cost of the subsidiary and the fair value of the net assets acquired. Positive goodwill is stated at cost less impairment losses.

The amount of positive goodwill, accounted for by the Company, relates to the acquired and then merged company AB Panevėžio Pienas.

Financial instruments

Investments in equity securities

Investments in equity securities, except for investments in subsidiary undertakings and associated companies, are classified as available-for-sale and at initial recognition are stated at fair value plus the related direct costs. Subsequently the investments are revaluated to fair value carrying the gain or loss on their revaluation directly under equity, except for impairment losses which are included in the income statement if the management has no intention to sell these investments during the period of 12 months after the balance sheet date. When the investments are sold, the accrued gain or loss previously recognised under equity, is recognised in the income statement.

Notes to the financial statements

The fair value of financial instruments classified as held for trading is their quoted price at the balance sheet date.

Financial instruments classified as held for trading are recognised / derecognised by the Company on the date it commits to purchase / sell the instruments.

Other financial instruments

Receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to the financial statements

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax asset, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the financial statements

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

Impairment of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods exists or where substantial risks and rewards can not be considered as transferred to the buyer.

Notes to the financial statements

Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Government grants intended to compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Government grants that compensate the Company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Notes to the financial statements

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Withholding taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the financial statements

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 Share-based Payment (effective from 1 January 2009). The revised Standard will clarifies the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the Company's operations as the Company does not have any share-based compensation plans.

- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. As the Revised IFRS 3 is not applicable on business combinations before the date of its adoption, it does not affect the financial statements of business combinations which may arise prior to the date of adoption of this Revised IFRS 3.

- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company expects the new Standard to significantly alter the presentation and disclosure of its operating segments in the financial statements.

- Revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Furthermore, the Revised IAS 1 prescribes presentation of a detailed income statement. The Company is currently evaluating the effect of this revised standard on presentation of financial statements.

- Revised IAS 23 Borrowing Costs (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Company has not yet completed its analysis of the impact of the revised Standard.

- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Company has not yet completed its analysis of the impact of the revised Standard.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.

- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations.

- IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Company does not expect the Interpretation to have significant impact on the financial statements.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (hereinafter MFR) and their interactions (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses: 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company The Company has not yet completed its analysis of the impact of the revised Standard.

Notes to the financial statements

Significant accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, reflecting the present situation and reasonable expectations of future events.

Significant accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual debtor, e.g. adverse change in the payment status of the debtor, etc.

Judgments

The Company has recognised deferred tax asset based on the judgement of management that realisation of the related tax benefits through future taxable profits are probable. Management's judgements are based on internal budgets and forecasts.

Notes to the financial statements

1. Segment reporting

The only business segment of the Company (as a primary reporting format) is production of milk products. Segment information is presented in respect of the Company's geographical segments (secondary segment reporting format).

In respect of the Company's geographical segments, segment income is recognised according to geographical location of clients. Segment assets are divided as to geographical location of the assets.

Results as to geographical segments for 2007 are as follows:

Thousand Litas	Lithuania	Russia	Latvia	Germany	Other	Total
Revenue	339 503	207 237	18 242	44 714	53 683	663 379
Segment result	73 778	40 714	4 007	11 937	15 740	146 176
Segment receivables	29 196	17 574	1 643	424	1 972	50 809
Other assets	325 820					325 820
Total assets						376 629
Acquisitions of property, plant and equipment	74 914					74 914

Results as to geographical segments for 2006 are as follows:

Thousand Litas	Lithuania	Russia	Latvia	Germany	Other	Total
Revenue	295 207	195 649	16 425	15 976	21 776	545 033
Segment result	59 893	36 615	2 873	1 021	2 964	103 366
Segment receivables	52 650	22 094	980	60	278	76 062
Other assets	243 952					243 952
Total assets						320 014
Acquisitions of property, plant and equipment	44 881					44 881

Revenue for 2007 includes export subsidies of 12,120 tLTL (2006: 27,139 tLTL).

Notes to the financial statements

2. Other operating income

Thousand Litas	2007	2006
Income from rent and other services	273	187
Gain on disposal of property, plant and equipment	766	444
Other	112	589
	1 151	1 220

3. Sales and administrative costs

Thousand Litas	2007	2006
Staff costs	(40 878)	(33 802)
Marketing and advertising	(3 800)	(5 496)
Depreciation and amortisation	(8 290)	(7 353)
Fuel	(5 515)	(5 194)
Impairment of receivables	(73)	(650)
Taxes, except income tax	(1 705)	(1 535)
Materials and spare parts	(4 311)	(3 874)
Transport	(496)	(381)
Communications	(1 196)	(1 100)
Utilities	(2 276)	(2 088)
Office articles	(286)	(344)
Operating lease	(268)	(78)
Repair	(3 001)	(2 262)
Insurance	(1 011)	(812)
Change in allowance for inventories	(3 544)	(78)
Reversal of impairment loss of property, plant and equipment	1 721	1 375
Impairment loss of property, plant and equipment	(1 007)	-
Provisions	(870)	-
Other	(20 766)	(12 531)
	(97 572)	(76 203)

4. Finance income

Thousand Litas	2007	2006
Interest	159	53
Other	29	220
Total finance income	188	273

Notes to the financial statements

5. Finance expenses

Thousand Litas	2007	2006
Interest on loans and leasing liabilities	(8 819)	(5 224)
Loss on foreign currency exchange	(214)	(120)
Other	(6)	(9)
Total finance expenses	(9 039)	(5 353)

6. Corporate income tax

Recognised in the income statement

Thousand Litas	2007	2006
Income tax for the current year	(7 875)	(4 537)
Change in deferred tax	276	(274)
Total income tax recognised in the income statement	(7 599)	(4 811)

The deferred tax liability of 2,755 tLTL, related to revaluation of buildings as at 31 December 2007, was recognised directly in equity decreasing the revaluation reserve. The carrying amount of the deferred tax liability recognised in equity as at 31 December 2007 amounts to 3,428 tLTL.

Reconciliation of effective tax rate

Thousand Litas	2007		2006	
Result before tax		40 904		23 303
Income tax using prevailing tax rate	18,0%	7 363	19,0%	4 428
Non-deductible expenses	2,7%	1 123	3,5%	819
Non-taxable income	-0,3%	-128	-1,2%	-286
Effect of charity (deducted twice)	-0,4%	-164	-0,7%	-150
Deducted tax on dividends	-1,4%	-594		
Effect of change in tax rate	0,0%	0	0,0%	0
	18,6%	7 599	20,6%	4 811

Notes to the financial statements

The Law on Social Tax is effective as of 1 January 2006 and until 31 December 2007. According to the mentioned law, payers of the social tax are companies, which pay corporate income tax prescribed by the Law on Profit Tax. The tax base for the additional tax is taxable profit determined as to the Law on Profit Tax. In 2006 the social tax rate was 4% and in 2007 – 3%. Therefore, profit for 2006 is taxed applying the 19% tax rate, and in 2007 - 18% tax rate.

7. Earnings per share ratio

A basic earnings per share ratio is calculated dividing the net profit for the year by the average number of ordinary shares outstanding during the year.

	2007	2006
Number of shares in issue calculated using weighted average method	54 205	54 205
Net profit for the year, in thousand Litas	33 305	18 492
Basic earnings per share, in Litas	0.61	0.34

Diluted earnings per share are the same as basic earnings per share.

Notes to the financial statements

8. Property, plant and equipment

Thousand Litas	Land and buildings	Machinery and equipment	Other assets	Constructio in progress	Total
Cost					
Balance at 1 January 2006	52 598	199 546	53 765	12 187	318 096
Acquisitions	435	30 926	7 015	5 980	44 356
Disposals and write-offs	(358)	(2 262)	(1 939)		(4 559)
Re-classification	11 875	6 285	(4 675)	(13 485)	-
Balance at 31 December 2006	64 550	234 495	54 166	4 682	357 893
Balance at 1 January 2007	64 550	234 495	54 166	4 682	357 893
Revaluation	11 015				11 015
Acquisitions	290	33 445	22 252	18 146	74 133
Disposals and write-offs		-6 284	-7 018		-13 302
Re-classification	15 864	370		-16 234	-
Balance at 31 December 2007	91 719	262 026	69 400	6 594	429 739
Depreciation and impairment					
Balance at 1 January 2006	1 678	99 056	33 627		134 361
Depreciation for the year	2 414	26 656	5 071		34 141
Depreciation of disposals	(238)	(1 970)	(1 865)		(4 073)
Re-classification	25	3 398	(3 423)		-
Balance at 31 December 2006	3 879	127 140	33 410	-	164 429
Balance at 1 January 2007	3 879	127 140	33 410		164 429
Revaluation	-8 079				-8 079
Depreciation for the year	3 139	29 432	6 671		39 242
Depreciation of disposals		-5 087	-4 716		-9 803
Re-classification	1 061	-1 186	125		-
Balance at 31 December 2007	-	150 299	35 490	-	185 789
Impairment at 1 January 2006		2 191	4 710	464	7 365
Change during the year		(444)	(931)		(1 375)
Impairment at 31 December 2006	-	1 747	3 779	464	5 990
Impairment at 1 January 2007		1 747	3 779	464	5 990
Re-classification		255	-255		-
Change during the year		-79	-1 008		-1 087
Impairment at 31 December 2007	-	1 923	2 516	464	4 903
Carrying amounts					
1 January 2006	50 920	98 299	15 428	11 723	176 370
31 December 2006	60 671	105 608	16 977	4 218	187 474
1 January 2007	60 671	105 608	16 977	4 218	187 474
31 December 2007	91 719	109 804	31 394	6 130	239 047

Notes to the financial statements

Impairment

In 2006 the impairment loss of 1,375 tLTL was reversed for machinery, equipment and other assets. The reversal was related to the expected disposal of the mentioned assets.

In 2007 the impairment loss of machinery, equipment and other assets was reduced by 1,087 tLTL due to disposal of the assets. Reversal of the mentioned impairment loss did not affect the income statement for 2007 because the total amount was recognised prior to 1 January 2007.

Revaluation of property, plant and equipment

The Company carried out the revaluation of buildings as at 31 December 2004. An increase in the value of the buildings amounting to 4,796 tLTL was recorded as revaluation reserve within equity as at 31 December 2004 net of deferred tax of 730 tLTL. A decrease in the value of buildings amounting to 8,050 tLTL was recorded under operating costs in the income statement for 2004.

As at 31 December 2007 the Company performed one more revaluation of the buildings. An increase in the value of 18,381 tLTL (net of deferred tax liability of 2,755 tLTL) was recognised in equity under the revaluation reserve. An increase in value of the buildings amounting to 1,721 tLTL was recognised in the income statement for 2007 as income because prior to 1 January 2007 an impairment loss was recognised for the mentioned assets. The impairment loss of the assets amounted to 1,007 tLTL and was recognised in the income statement for 2007.

The revaluation was performed based on the fair values determined by external valuators applying the comparative transactions method.

Should the Company have continuously accounted for the land and buildings using acquisition cost method, the carrying amount of the land and buildings as at 31 December 2007 would amount to 76,062 tLTL.

Pledges

Property, plant and equipment with the carrying amount of 81,437 tLTL as at 31 December 2007 (2006: 58,416 tLTL) are pledged to secure the bank loans (refer to note 16).

Leased assets

The Company has acquired machinery and equipment, transport vehicles and other assets by way of finance lease. As at 31 December 2007 the carrying amount of the assets acquired by way of finance lease amounted to 52,983 tLTL (2006: 30,634 tLTL). Finance lease liabilities are secured by the leased assets (refer to note 16).

Notes to the financial statements

Depreciation

Depreciation is included in the following items of the income statement:

Thousand Litas	2007	2006
Cost of sales	27 566	25 601
Sales and administrative expenses	7 421	6 497
	34 987	32 098

The remaining depreciation amounting to 4,255 tLTL is included in the carrying amount of inventories as at 31 December 2007.

Acquisition cost of fully depreciated tangible non-current assets in use amounts to 75,626 tLTL as at 31 December 2007.

9. Intangible assets

Thousand Litas	Goodwill	Software, etc.	Total
Cost			
Balance at 1 January 2006	335	5 042	5 377
Acquisitions		525	525
Write-offs		(322)	(322)
Balance at 31 December 2006	335	5 245	5 580
Balance at 1 January 2007	335	5 245	5 580
Acquisitions		781	781
Write-offs		(42)	(42)
Balance at 31 December 2007	335	5 984	6 319
Amortisation and impairment			
Balance at 1 January 2006		3 222	3 222
Amortisation for the year		856	856
Amortisation of written-off assets		(309)	(309)
Balance at 31 December 2006	-	3 769	3 769
Balance at 1 January 2007	-	3 769	3 769
Amortisation for the year		868	868
Amortisation of written-off assets		(42)	(42)
Balance at 31 December 2007	-	4 595	4 595
Carrying amounts			
1 January 2006	335	1 820	2 155
31 December 2006	335	1 476	1 811
1 January 2007	335	1 476	1 811
31 December 2007	335	1 389	1 724

Notes to the financial statements

Amortisation is included in sales and administrative expenses.

Goodwill amounting to 335 tLTL as at 31 December 2007 arose from the acquisition of AB Panevėžio Pienas which was merged into the Company in 2004. The management is of the opinion that there is no impairment of goodwill due to profitable operation of the branch Panevėžio Pienas.

Acquisition cost of fully amortised intangible assets in use amounts to 2,376 tLTL as at 31 December 2007.

10. Investments available for sale

Thousand Litas	2007	2006
Investments available for sale	275	275
	275	275

The major part of investments available for sale as at 31 December 2007 includes shares of UAB Kapitalo Srautai (representing 15.3% ownership interest). UAB Kapitalo Srautai is engaged in financial brokerage activities. Due to the fact that the fair value of the mentioned shares cannot be reliably determined, they are stated at acquisition cost, which amounts to 200 tLTL. The other available for sale investments are also stated at cost due to absence of reliable estimate of their fair value

11. Inventories

Thousand Litas	**2007**	**2006**
Raw materials	17 408	16 957
Work in progress	42 467	25 923
Finished goods	15 690	8 126
Goods for re-sale	193	200
	75 758	51 206

Raw materials include milk and other materials used in production.

Inventories which in the balance sheet are stated at net realisable value as at 31 December 2007 amount to 42,079 tLTL.

Notes to the financial statements

Inventories recognised as costs during the year can be specified as follows:

Cost of sales (manufactured goods sold)	(517 203)	(441 667)
Sales and administrative expenses (consumption of inventories)	(9 826)	(9 068)
Other operating costs (sold raw materials, spare parts)	(522)	(609)
	(527 551)	(451 344)

Sales and administrative expenses include consumed fuel, spare parts as well as write down related to slow moving and obsolete inventories.

Other operating costs include cost of re-sold goods and cost of sold raw materials and other inventories.

Inventories with the carrying amount of up to 75,758 tLTL (2006: 51,206 tLTL) as at 31 December 2007 have been pledged to secure bank loans (refer to note 16).

12. Receivables

Thousand Litas	2007	2006
Trade receivables	37 656	58 767
Receivable government grants	1 242	12 781
Prepayments	11 023	4 510
Other receivables	1 673	758
	51 594	76 816
Impairment losses	(785)	(754)
	50 809	76 062

Receivable government grants comprise amounts receivable from the National Settlement Agency for the cheese and other milk products exported as to export licenses.

The carrying amount of receivables approximates the fair value because of their short-term nature.

Notes to the financial statements

13. Cash and cash equivalents

Thousand Litas	2007	2006
Cash at bank	1 611	602
Cash in hand	1 091	805
	2 702	1 407

As at 31 December 2007 cash at bank and cash inflows of up to 1,611 tLTL (2006: 602 tLTL) have been pledged to secure the liabilities to the banks (refer to note 16).

14. Share capital

As at 31 December 2007 the share capital comprised 54,205 thousand ordinary shares at par value of 1 Litas each.

Holders of ordinary shares have one voting right per share at the shareholders meeting and the right to dividends when they are declared, as well as the right to capital repayment in case of a decrease in share capital.

Own shares

The Company as at 31 December 2007 has repurchased 807,511 own shares (2006: 307,511 own shares).

When own shares are purchased, the amount paid, including direct costs, is accounted for as a change in equity. The purchased own shares are stated deducting them from the total equity. Profit or loss from disposal of own shares is recognised in equity.

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can be used only for coverage of losses.

Notes to the financial statements

Revaluation reserve

As at 31 December 2004 the Company established a revaluation reserve of 4,066 tLTL, which is related to revaluation of buildings as at 31 December 2004. The revaluation reserve is shown net of deferred tax liability amounting to 730 tLTL.

As at 31 December 2007 the Company additionally recognised 15,626 tLTL to the revaluation reserve, which is related to revaluation of buildings as at that date. The revaluation reserve was decreased by an amount of deferred tax of 2,755 tLTL.

The reserve is decreased in proportion to depreciation and disposal of the revaluated assets. The decrease in reserve is recognised directly in equity.

When revalued buildings are depreciated a transfer from the revaluation reserve to retained earnings is made. The amount is determined as the difference between the depreciation based on the revalued carrying amount and the depreciation based on the original cost of the buildings.

The revaluation reserve may be used for an increase of share capital.

Other reserves

Other reserves amount to 3,700 tLTL as at 31 December 2007 (2006: 3,500 tLTL). Part of other reserves amounting to 3,000 tLTL (2006: 3,000 tLTL) is allocated for acquisition of own shares. As to Lithuanian legislation, this reserve will be accounted for until the Company purchases its own shares.

Dividends per share paid in 2007 were 0.20 LTL (2006: 0.175 LTL).

Notes to the financial statements

15. Government grants

Thousand Litas	2007	2006
Government grants as at 1 January	10 192	10 142
Increase during the period	1 043	50
Government grants as at 31 December	11 235	10 192
Amortisation as at 1 January	7 119	5 026
Amortisation for the year	2 033	2 093
Amortisation as at 31 December	9 152	7 119
Net carrying amount at 1 January	3 073	5 116
Net carrying amount at 31 December	**2 083**	**3 073**

As at 1 January 2007 government grants comprise amounts received as to the SAPARD project for modernization of equipment in the cheese factory. Grants recognised in 2007 comprise amounts received as to structural funds' project for modernization of special transport vehicles (milk-float) – 943 tLTL and for realisation of the project of Social Security Fund under Social Security and Labour ministry – 100 tLTL.

Government grants are amortised over the same period as the equipment and other assets for which the government grants were received. The amortisation of government grants is included in the cost of sales as well as depreciation of machinery and equipment for which the government grants were received.

16. Interest bearing loans and borrowings

The Company's loans and borrowings are as follows:

Creditor	Ref.	Original liability amount / credit limit	Balance 31 12 2007	Balance 31 12 2006
AB Bankas Hansabankas	a)	21 578	8 299	14 939
AB Bankas Hansabankas	b)	5 000	2 970	2 755
AB SEB Bankas	c)	22 112	14 053	19 163
AB SEB Bankas	d)	35 000	26 045	22 393
AB SEB Bankas	e)	10 165	9 569	0
AB DnB Nord Bankas	f)	23 000	23 000	23 000
AB DnB Nord Bankas	g)	10 000	7 889	9 530
Leasing companies	h)	47 612	47 612	31 990
Bonds	i)	20 000	20 000	20 000
Total liabilities			159 437	143 770
Less: current part			(60 071)	(23 953)
Total non-current part			99 366	119 817

Notes to the financial statements

a) The loan is received for acquisition of new milk processing equipment. The loan is repayable in equal parts on a quarterly basis and shall be fully repaid by 31 December 2008. The loan is secured by pledging non-current assets of the branch Kauno Pienas.

b) The loan (overdraft) is received for working capital needs. The loan matures on 31 October 2008.

c) The loan is received for acquisition of new milk processing equipment. The loan is repayable in equal parts on a quarterly basis and shall be fully repaid by 10 August 2010. The loan is secured by pledging non-current assets of the branch Pasvalio Sūrinė.

d) The loan (overdraft) is received for working capital needs. The loan matures on 10 August 2008. The loan is secured by pledging inventories of the Company.

e) The loan is received for acquisition of new milk-floats. The loan shall be repaid by 20 May 2012. The loan is secured by pledging new milk-floats.

f) The loan is received for acquisition of new milk processing equipment. The loan shall be repaid by 30 September 2010. The loan is secured by pledging non-current assets of the branch Mažeikių Pieninė.

g) The loan (overdraft) is received for working capital needs. The loan matures on 30 March 2009.

h) Leasing liabilities comprise finance lease of transport vehicles and equipment.

i) On 2 October 2006 the Company issued the bonds emission of 20 million LTL. The bonds repurchase will be take place on 2 October 2009. Funds from issued bonds have been used for financing investment projects.

All loans and other financial liabilities as at 31 December 2007 are denominated in EUR or LTL. Loans denominated in EUR amount to 102,533 tLTL as at 31 December 2007 (2006: 57,102 tLTL).

All interest rates on loans, borrowings and finance leases are variable and consist of LIBOR, EURIBOR or VILIBOR plus a fixed margin. Interest is repriced every 3 to 6 months depending on the loan/lease agreement and for this reason carrying amounts are assumed to approximate fair values of these loans/leases.

Notes to the financial statements

The annual interest rate for bonds is an interest rate of three years standard interest rate swap (IRS) plus a 1,1% margin. IRS was determined at 6 p.m. on the last working day before the beginning of the bonds emission as to the average quotation of sale-purchase presented in the „Reuters“ information system site EURIRS. The determined interest rate is 4,96%. Interest to bond owners will be paid three times. The first payment will be on 2 October 2007, the second - 2 October 2008, the third – on the bonds repurchase day, i.e. 2 October 2009 together with the nominal value of the bonds. Calculation of the interest starts as of 2 October 2006 which is the first day the bonds come into effect.

For the loans received the Company has pledged its non-current assets with the carrying amount of 81,437 tLTL (2006: 58,416 tLTL), inventories with the carrying amount up to 75,758 tLTL (2006: 51,206 tLTL) and cash at bank and cash inflows up to 1,611 tLTL (2006: 602 tLTL) as at 31 December 2007.

Loan repayment schedules, except for finance lease liabilities

The repayment of loans as to the approved schedules will be carried out as follows:

Thousand Litas	**2007**	**2006**
Within 1 year	44 809	14 503
From 1 to 5 years	67 014	97 277
Carrying value of interest-bearing loans	111 823	111 780

Finance lease liabilities

Finance lease payments are as follows:

Thousand Litas	**2007**	**2006**
Within 1 year	16 822	10 730
From 1 to 5 years	35 042	25 117
	51 864	35 847
Future interest of finance lease	(4 252)	(3 857)
Carrying value of finance lease liabilities	47 612	31 990

The finance lease agreements do not prescribe any contingent lease payments.

Notes to the financial statements

Interest rates

Effective interest rates of the loans and finance leases can be presented as follows:

%	2007	2006
Long-term loans	4.9 – 5.5	4.6 – 4.9
Short-term loans	5.9	4.6
Finance lease	4.9 – 5.5	4.5 – 4.9

Operating lease

Operating lease expenses recognised in the income statement could be specified as follows:

Thousand Litas	2007	2006
Rent of milk collection premises	(364)	(481)
Operating lease of other assets	(268)	(78)
Total operating lease expenses:	(632)	(559)

Expenses in respect to rent of milk collection premises are recognised under cost of sales. Operating lease of other assets is included in sales and administrative costs.

Future minimum lease payments could be presented as follows:

Thousand Litas	2008	2009	2010
Rent of milk collection premises	-	-	-
Operating lease of other assets	(1 371)	(1 371)	(1 371)
Total operating lease expenses:	(1 371)	(1 371)	(1 371)

Agreements on the rent of milk collection premises do not prescribe any limitations in respect to termination of agreement. Therefore, the Company does not have any long-term liabilities as to the mentioned agreements.

Notes to the financial statements

17. Deferred tax assets and liabilities

The deferred tax asset and liabilities calculated applying the 18% and 15% tax rates are attributed to the following items:

Thousand Litas	Asset		Liability		Net value	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Property, plant and equipment	(2 073)	(2 124)	3 836	884	1 763	(1 240)
Inventories	(556)	(27)			(556)	(27)
Accrued costs	(157)	(162)			(157)	(162)
Tax (asset) / liability	(2 786)	(2 313)	3 836	884	1 050	(1 429)

Movements in temporary differences during the year can be presented as follows:

Thousand Litas	1 January 2006	Recognised in income statement	Recognised in equity	31 December 2006
Property, plant and equipment	(1 463)	256	(33)	(1 240)
Inventories	(46)	19	-	(27)
Accrued costs	(161)	(1)	-	(162)
Tax (asset) / liability	(1 670)	274	(33)	(1 429)

Thousand Litas	1 January 2007	Recognised in income statement	Recognised in equity	31 December 2007
Property, plant and equipment	(1 240)	248	2 755	1 763
Inventories	(27)	(529)		(556)
Accrued costs	(162)	5		(157)
Tax (asset) / liability	(1 429)	(276)	2 755	1 050

Difference between the tax basis and the carrying amount of property, plant and equipment in the financial statements, has occurred mainly due to revaluation of the buildings and impairment of property, plant and equipment.

Notes to the financial statements

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Thousand Litas	2007	2006
Impairment of receivables	785	754
	785	754

Deferred tax assets have not been recognized in respect of these items because it is not probable that temporary differences will crystallize in the future.

18. Trade and other payable amounts

Thousand Litas	2007	2006
Payable to suppliers	37 690	38 604
Vacation accrual	5 767	4 711
Taxes and social security contributions payable	2 908	3 741
Salaries payable	2 960	2 345
Other	1 562	316
	50 887	49 717

19. Provisions

In the 3rd quarter of 2007 the Competition Council of the Republic of Lithuania started an investigation of an eventual cartel agreement among the milk processing companies in Lithuania. On 28 February 2008 the Competition Council imposed a penalty of 866 tLTL to AB Pieno Žvaigždės. Therefore as at 31 December 2007 the Company established a provision for coverage of losses.

Notes to the financial statements

20. Financial instruments

The credit, interest rate and foreign exchange risks arise in the course of the Company's activities carried out on normal business conditions.

Credit risk

The Company has established the credit policy and credit risk is being monitored on a continuous basis. The Company did not have any significant concentration of credit risk at the balance sheet date.

Foreign exchange risk

The Company is exposed to foreign currency exchange risk, related to sales, purchases and borrowings denominated in other currencies than Litas or Euro (Litas is pegged to Euro at a fixed exchange rate 3.4528 LTL / EUR).

As at 31 December 2007 there are no significant monetary assets and liabilities denominated in other currencies than LTL and EUR.

Interest rate risk

The Company is subject to interest rate cash flow risk because interest-bearing loans are subject to variable interest, related to LIBOR, EURIBOR, VILIBOR and varying from LIBOR/EURIBOR/VILIBOR+0.8% to LIBOR/EURIBOR/VILIBOR+1.0%.

As at 31 December 2007 the Company did not use any financial instruments to hedge its cash flows and interest rate risks.

21. Pledges and capital commitments

The following assets have been pledged to secure the bank loans as at 31 December 2007:

- Property, plant and equipment with the carrying amount of 81,438 tLTL (2006 : 58,416 tLTL),
- Inventories with the carrying amount up to 75,757 tLTL (2006 : 51,206 tLTL),
- Cash and cash inflows amounting to 1,611 tLTL (2006 : 602 tLTL),
- The land rent right.

As at 31 December 2007 the Company's capital commitments amount to 3,698 tLTL.

Notes to the financial statements

22. Related parties

Transactions with related parties can be specified as follows:

Thousand Litas	2007		2006	
	Sales	**Purchases**	**Sales**	**Purchases**
ŽŪB Draugas		9 026		5 972
UAB Jansvis		124		695
UAB Žaibo ratas		226		166
		9 376		6 833

ŽŪB Draugas is a related company through a Chairman of the Board of AB Pieno Žvaigždės. UAB Jansvis is a related company through a family member of the director of AB Pieno Žvaigždės branch Pasvalio Sūrinė. UAB Žaibo Ratas is a related company through a Board member of AB Pieno Žvaigždės.

From ŽŪB Draugas the Company purchases raw milk. UAB Jansvis provides transport vehicles, and UAB Žaibo Ratas renders services.

Amounts receivable from the related parties as at 31 December 2007 are as follows: from ŽŪB Draugas – 4,750 tLTL (2006: 850 tLTL).

Amounts payable to the related parties as at 31 December 2007 are as follows: to UAB Žaibo ratas - 28 tLTL (2006: 8 tLTL), to UAB Jansvis - 0 LTL (2006: 99 tLTL), to ŽŪB Draugas – 0 LTL (2006: 76 tLTL).

Sales and purchases to/from related parties were carried out on market terms.

Remuneration of key management personnel is included under the sales and administrative expenses category "Staff costs" (refer to note 3):

Thousand Litas	2007	2006
Remuneration of key management personnel	2 034	2 036

23. Post balance sheet events

On 28 February 2008 the Competition Council imposed a penalty of 866 tLTL to AB Pieno Žvaigždės (refer to note 19 "Provisions"). No other significant post balance sheet events have occurred.

Notes to the financial statements

24. Contingent liabilities

Except for the investigation performed by the Competition Council, the Company does not have any significant legal cases, claims and other disputes with third parties.

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Pieno Žvaigždės, AB

Confirmation of the Management

2008 02 28
Vilnius

Financial statements and the Annual Report for the year 2007

We, Aleksandr Smagin, Chief Executive Officer and Audrius Statulevičius, Chief Financial Officer, hereby confirm that, to the best of our knowledge, Financial Statements for the year 2007 prepared in accordance with IFRS, give true and fair view of the assets, liabilities, financial position and profit or loss of AB Pieno Žvaigždės. Annual report for the year 2007 includes a fair review of the development and performance of the business.

Pieno Žvaigždės, AB CEO	Aleksandr Smagin
Pieno Žvaigždės, AB CFO	Audrius Statulevičius

PIENO ŽVAIGŽDĖS sveikam gyvenimui

Appoved on the
Board Meeting
Februrary
28, 2008

PIENO ŽVAIGŽDĖS, AB

ANNUAL REPORT
2007

VILNIUS, 2008

1. GENERAL INFORMATION ABOUT THE ISSUER

1.1 Accounting period for which the present report has been prepared.

The present Report has been prepared for the year 2007.

1.2. Key Data on the Issuer

Company name	Public Limited Liability Company Pieno Žvaigždės
Registration date and time	The company was reregistered on 23 December 1998
Company code	1246 65536
VAT payer code	LT 246655314
Authorized capital	54 205 031 Litas, divided into 54 205 031 one Litas nominal value shares.
Address	Laisvės ave. 125, LT-06120 Vilnius, Lithuania
Telephone	(+370 5) 246 14 14
Fax	(+370 5) 246 14 15
E-mail	info@pienožvaigždės.lt
Internet website	www.pienožvaigždės.lt

1.3. Type of the Issuer's main activities

The Company's main activity is manufacturing of milk products.

1.4. Agreements with intermediaries of public trading in securities

The Company has signed agreements with the financial brokerage company AB Finasta (Konstitucijos Ave. 23, Vilnius, tel. (+370~5) 278 6833, fax (+370~5) 278 6838) concerning management of securities accounting.

1.5. Securities admitted to the trading lists of the stock exchanges

1.5.1. The ordinary registered shares of AB Pieno Žvaigždės were admitted to the Official List of the Vilnius Stock Exchange (hereinafter – the VSE).
Type of shares – ordinary registered shares;
Number of shares – 54 205 031;
Total nominal value – 54 205 031 Lt;
ISIN code – LT0000111676;

1.5.2. AB Pieno Žvaigždės bonds emission at the total nominal value of 20.000.000 Litas is included in the VSE list of debt securities. Main characteristics of the debt securities issued for public trading:

Type of debt securities	Coupon bonds
Number of bonds	200 000
Total nominal value of the issue	20 000 000 Litas
Nominal value per bond	100 (one hundred) Litas
Annul interest rate	4,96%
Issued at	October 2, 2006
Duration	1096 days
Coupon payments	2007 10 02, 2008 10 02, 2009 10 02
Redemption date	October 2, 2009
Redemption price (per bond)	100 (one hundred) Litas
Issue currency	Lithuanian Litas
Risk	Issuer's risk
Type of the distribution	Public distribution
Public trading	VSE list of the debt securities

1.5.3. The Company has bought 807 511 own shares.

2. NFORMATION PROVIDED FOR IN ARTICLE 24(1) OF THE LAW ON FINANCIAL STATEMENTS OF ENTITIES OF THE REPUBLIC OF LITHUANIA

2.1.The objective review of the Company's state, performance and development; the description of the main risk types and uncertainties encountered by the enterprise

AB Pieno Žvaigždės was established on 23 December 1998 after a merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into AB Pieno Žvaigždės. The current structure of the Company enables to specialize production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country.
AB Pieno Žvaigždės is the largest milk processing company in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to Russia, countries of the European Union, CIS and Baltics. Different types of ferment cheese, whey flour and fresh milk products produced by AB Pieno Žvaigždės are the main products produced for export which are well known for their irreproachable quality. The products are awarded with quality certificates.

<u>Risk factors related to the Issuer's activity:</u>
The main activity of the Issuer is processing of milk. The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results.
The main raw material used by the Issuer is milk, the sales quota for processing of which to the EU milk processing companies is limited by national milk quota. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the Issuer.
The Issuer's business (especially collection and transportation of milk) is a labour consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer.

2.2. Analysis of financial and non-financial activity results, information related to environment and personnel issues

Key financial figures for 2007 are as follows:

Financial ratios	As to International Financial Reporting Standards
Turnover	663,4 million Litas
Gross profit	146,2 million Litas
Profit before tax, interest and depreciation (EBITDA)	88,0 million Litas
Profit before tax	40,9 million Litas
Investment in property, plant and equipment	74,9 million Litas

Other ratios:

- ✓ Average number of employees 2 706
- ✓ Raw milk purchased 378 thousand tons
- ✓ Milk purchased as to basic ratios 469 thousand tons

2.3. References and additional explanatory notes regarding the data presented in the annual financial statements

Information presented in the financial statements and notes to the financial statements are sufficient, detailed and requires no additional explanation.

2.4. The number and nominal value of the shares acquired by the entity and the entity's own shares as well as nominal value thereof and a part of the authorised capital made up by these shares

As at 31 December 2007 AB Pieno Žvaigždės acquired 807 511 own shares or 1,49% of the share capital. The nominal value of own shares held by the Company amounts to 807 511 Litas.

2.5. The number and value of own shares acquired and transferred during the reporting period and a part of the authorised capital made up by these shares

As at 1 January 2007 AB Pieno Žvaigždės acquired 307 511 own shares or 0,57% of the share capital. During year 2007 AB Pieno Žvaigždės additionally acquired 500 000 units own shares or 0,92% of the share capital.

2.6. Information about payment for own shares, where they are acquired or transferred against payment

During year 2007 all own shares were acquired through the Official offers at the price of 6,00 Litas per share. Total amount paid for the acquired shares – 3 000 000 Litas.

2.7. Reasons for acquiring the entity's own shares during the reporting period;

The main reason of acquiring own shares is to stabilize the shares price at the stock market.

2.8. Information about branches and representative offices

AB Pieno Žvaigždės comprises four production branches:

- ✓ Branch Kauno Pienas, Taikos pr. 90, LT-51181 Kaunas;
- ✓ Branch Mažeikių Pieninė, Skuodo g. 4, LT-89100 Mažeikiai;
- ✓ Branch Pasvalio Sūrinė, Mūšos g. 14, LT-39104 Pasvalys;
- ✓ Branch Panevėžio Pienas, Tinklų g. 9, LT-35115 Panevėžys.

2.9. Significant events occurred after the end of the financial year

On 28 February 2008 the Competition Council charged AB Pieno Žvaigždės a penalty of 866 thousand Litas. No other significant events have occurred during the period from the end of the financial year until approval of the annual report.

2.10. Plans of the Company's activity and forecasts

AB Pieno Žvaigždės have set the following goals for 2008:

- ✓ to reach the turnover of 750 million LTL;
- ✓ to achieve net profitability of 4%;
- ✓ further implementation of the costs saving programs.

2.11. Information about research and development activity

The Company continuously makes investments and searches for new ways how to ensure a constant and better efficiency growth of its activity.

2.12. The goals of financial risk management, hedging instruments used for expected transactions on which hedging accounting is applied, and the scope of price risk, credit risk, liquidity risk and cash flows risk

Information on the Company's financial risk is presented in the explanatory note to the annual financial statements.

3. OTHER INFORMATION ABOUT THE ISSUER

3.1. The Issuer's authorized capital

The authorized capital registered in the Register Center is 54 205 031 Litas. The authorized capital divided into 54 205 031 ordinary shares (nominal value 1 Litas). All ordinary registered shares of AB Pieno Žvaigždės are fully paid up.

3.2. All restrictions applicable upon the transfer of securities

There are no restrictions applicable upon the transfer of securities

3.3. Shareholders

At 31st December 2007, the Company had 4.305 shareholders.

The shareholders holding by the right of ownership or in trust more than 5 per cent of the Company's authorized capital

Names of shareholders	Number of shares	Share of the capital %	Share of votes %	Share of votes with related persons %
SKANDINAVISKA ENSKILDA BANKEN CLIENTS, code 50203290810, SERGELS TORG 2, 10640 STOCKHOLM, SWEDEN	9 654 987	17,81	18,08	-
UAB "Agrolitas Imeks Lesma" Laisvės pr.125, Vilnius, company code 2191855	6 298 486	11,62	11,80	-
SWEDFUND INTERNATIONAL Sveavagen 24-26, Box 3286, SE-103 65 Stockholm, Sweden	4 700 000	8,67	8,80	-
ŽŪKB "Smilgelė" J.Tumo Vaižganto 8/27-3. Vilnius, company code 2490652	4 147 441	7,65	7,77	-
Kvaraciejienė Regina	2 267 535	4,18	4,25	31,34
Kvaraciejus Julius	6 375 704	11,76	11,94	31,34
Jankauskas Virginijus	1 140 431	2,10	2,14	31,34
Klovas Voldemaras	2 170 248	4,00	4,06	31,34
Klovienė Danutė	1 091 691	2,01	2,04	31,34
Mileiko Kristina	323 285	0,60	0.61	31,34
Paura Valentinas	82 431	0,15	0,15	31,34
Paurienė Ligita	66 463	0,12	0,12	31,34
Rakštienė Laima	672 319	1.24	1.26	31,34
Smagin Aleksandr	2 547 123	4,70	4,77	31,34

3.4. Shareholders having special control rights and the description of such rights;

There are no shareholders having special control rights in the Company.

3.5. All restrictions imposed upon the voting rights

There are no shareholders in the Company, who have restrictions imposed upon voting rights.

3.6. All the agreements concluded among the shareholders of which the issuer was aware and due to which the securities transfer and (or) voting rights may be restricted

The issuer is not aware about the agreements concluded among the shareholders due to which the securities transfer and (or) voting rights may be restricted.

3.7. Employees

	2007 12 31	2006 12 31
Average number of employees	**2.706**	**2.707**
With university education	376	364
With further education	964	979
With secondary education	1.116	1.134
With not completed secondary education	250	230

	Average payroll, Litas	
	2007 12 31	2006 12 31
Managers	6.350	5.410
Specialists	2.150	1.830
Workers	1.570	1.408

3.8. Change of the issuer's Articles of Association

The Articles of Association may be exclusively changed by the general meeting of shareholders, according to the laws of the Republic of Lithuania.

3.9. Management bodies of the issuer

The managing bodies of the company are as follows: General shareholders' meeting, the Board of Directors and the Chief Executive Officer. There is no Supervising Council in the Company.

The Board of Directors is a collegial management body comprising of 10 (ten) members. The Board members are elected for the 4 years period. The Chairman is elected from the Board members.

The competence and procedure of announcement of the shareholders' meeting complies with the competence and procedure of announcement of the shareholders' meeting established by the Law on Joint Stock Companies.

3.10. Members of the collegial bodies of management, manager of the Company, the Chief Financier

Management Board

Name, surname	Official duties	Number shares, units	Share of the capital %	Appointed from	Appointed untill
Julius Kvaraciejus	Chairman	6 375 704	11,76	2004 11 29	2009 11 29
Virginijus Jankauskas	member	1 140 431	2,10	2004 11 29	2009 11 29
Klovas Voldemaras	member	2 170 248	4,00	2004 11 29	2009 11 29
Aleksandr Smagin	member	2 547 123	4,70	2004 11 29	2009 11 29
Valentinas Paura	member	82 431	0,15	2004 11 29	2009 11 29
Kristina Mileiko	member	323 285	0,60	2004 11 29	2009 11 29
Regina Kvaraciejiene	member	2 267 535	4,18	2004 11 29	2009 11 29
Kjell Lennart Carlsso	member	-	-	2004 11 29	2009 11 29
Hans Mideus	member	-	-	2004 11 29	2009 11 29
Paul Bergqvist	member	-	-	2005 12 08	2009 11 29

Administration

Name, surname	Official duties	Number of shares	Share of the capital %
Aleksandr Smagin	CEO	2 547 123	4,70
Audrius Statulevičius	CFO	-	-

During the year 2007, an amount of 2 034 thousand Litas was calculated to the Company's management. The average amount per one person is 185 thousand Litas.

3.11. All material agreements to which the issuer is a party and which would come into effect, be amended or terminated in case of change in the issuer's control, also their impact except the cases where the disclosure of the nature of the agreements would cause significant damage to the issuer.

There are no such agreements.

3.12. All agreements of the issuer and the members of its management bodies, or the employee agreements providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the issuer

The Company has no agreements with the Board members or employees prescribing compensations in case of retirement or dismissal without a reasonable excuse or in case of termination of work due to changes in the Company's control.

3.13. Information on the major related parties' transactions

(the issuers of equity securities shall additionally present the information on the major related parties' transactions while specifying the amounts of the transactions, the nature of the relations between the parties concerned and other information about the transactions indispensable for the understanding of the financial status of the company where the transactions were material or were concluded under unusual market conditions. The information on individual transactions may be generalized by type of the transactions, except the cases where additional information must be disclosed for the purpose of understanding the impact of the related parties' transactions upon the financial status of the company. The term "related party" shall have the same meaning as used in the accounting standards used by the issuer)

During 2007 there were no significant or unusual transactions with related parties. More information on transactions with related parties is presented in the explanatory notes to the financial statements.

4. INFORMATION ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Information on the compliance with the corporate governance code is presented in the addendum No.1.

5. DATA ON THE PUBLICLY DISCLOSED INFORMATION

2007-02-28
Call for an Annual General Meeting of Shareholders of Pieno Žvaigždės
The Annual General Meeting of Shareholders of Pieno Žvaigždės (Company code 124665536, address Laisves pr.125, Vilnius) is called at 11:00 on 27 April 2007 at the initiative and decision by the Board. The Meeting will take place at corporate headquarters at Laisves pr. 125, Vilnius. Registration starts at 10:00.
Agenda of the Meeting:
1. Company's Annual report.
2. Audit report of the Company's financial accounts and the Annual Report.
3. Approval of the financial accounts of the Company.
4. Approval of the profit distribution.
5. Acquisition of the Company's shares.
6. Approval of the Audit Company.

2007-02-28
Not audited financial results for the year 2006
Revenues for year 2006 reached 545.0 million LTL (157.8 million EUR) and have increased by 22% comparing to the revenues of 446.3 million LTL (129.3 million EUR) a year ago.

EBITDA for the year 2006 reached 60.9 million LTL (17.6 million EUR) and have increased by 21% comparing to 50.5 million LTL (14.6 million EUR) a year ago.

Profit before profit tax for the year 2006 reached 22.9 million LTL (6.6 million EUR) and have increased by 24% compare to 18.4 million LTL (5.3 million EUR) a year ago.

Net profit for the year 2006 was 18.4 million LTL (5.3 million EUR) and has increased by 20% comparing to 15.3 million LTL (4.4 million EUR) a year ago.

2007-02-28
Dividends for the year 2006
The Board of AB Pieno Žvaigždės decided to propose a dividend of LTL 0.20 per share to be approved by the Shareholders Meeting.

2007-04-17
Agenda and decisions of the Annual general meeting

2007-04-27
Decisions of the Annual general meeting
Decisions of the annual general shareholders meeting of Pieno Žvaigždės, AB which was held on 27 April 2007 at 11:00 am (registration started at 10:00 am) at Hotel Le Meridien Villon, highway A2, Vilnius-Ryga, LT-03005 Vilnius-9, Lithuania:
1. Company's Annual report.
Taken for the information.
2. Information of the Company's auditors.
Taken for the information.
3. Approval of the Company's annual financial statements for the year 2006.
Decision:
1. To approve audited Company's annual financial statements for the year 2006, prepared according to the International Financial Reporting Standards.

4. Allocation of 2006 Company's profit.
Decision:
To allocate the Company's profit of the year 2006 according the draft of profit allocation presented for Annual General Meeting of Shareholders:
The Board proposes for the Annual General Meeting to allocate from the Company's distributable profit 10.779.504 Litas (EUR 3.121.960) for the dividend payment for the year 2006 or 0.20 Litas (EUR 0.058) dividend per share. To transfer to the own shares acquisition reserve 3.000.000 Litas (EUR 868.860). To allocate 200.000 Litas (EUR 57.924) for the annual payments to the members of the Board for the year 2006. To transfer to the social activities reserve LTL 300.000 (EUR 86.886).
5. Acquisition of the Company‘s shares.
Decision:
Purchase of the shares of AB Pieno Žvaigždės through non-obligatory official offers following the legal procedures of the securities‘ market.
a) purpose of acquiring shares is to stabilize share market price, increase liquidity and avoid losses due to decrease in share price;
b) par values of all purchased shares shall not exceed 10% of statutory capital;
c) the Company may execute purchase of its shares within 18 calendar months;
d) the lowest and the highest purchase price shall not exceed 30% of the arithmetic average of the last week‘s trade at the central market of Vilnius Stock Exchange;
e) the lowest sales price of purchased shares shall not exceed 2/3 of the purchase price. The shares shall be sold in the central securities market or through an auction in order to ensure the equal possibilities to all shareholders. All shareholders shall be informed of the auction by registered mail or through public announcement.
As per this resolution by the General Shareholders Meeting and as per Act 54 of the Company Law of Republic of Lithuania the Board of the company is authorized to take all decisions relating to time and price to purchase shares as well as to time, price and manned to sell shares and decide on other issues that are not foreseen in this resolution.
6. Approval of the audit company.
Decision:
Approve KPMG Baltics as the audit company for the financial years 2007 and 2008.

2007-05-03
<u>AB Pieno Žvaigždės, not audited financial results for the I quarter 2007</u>

Revenues for the I quarter 2007 reached 141.9 million Litas (41.1 million EUR) and have increased by 24% compared to the revenue of 114.1 million Litas (33.0 million EUR) a year ago.

EBITDA for the I quarter 2007 reached 13.8 million Litas (4.0 million EUR) and have increased by 11.3% compared to 12.4 million Litas (3.6 million EUR) a year ago.

Profit before profit tax (EBT) for the I quarter 2007 reached 3.2 million LTL (0.9 million EUR) and have decreased compared to 3.4 million Litas (1.0 million EUR)
a year ago.

Net profit for the I quarter 2007 was 2.6 million Litas (0.75 million EUR) and has decreased compared to 2.7 million Litas (0.78 million EUR) a year ago.

2007-08-06
AB Pieno Žvaigždės, not audited financial results for the 6 months 2007
Revenues for the 6 months 2007 reached 309.7 million LTL (89.7 million EUR) and have increased by 24.5% compare to the revenues of 248.7 million LTL (72.0 million EUR) a year ago.
EBITDA for the 6 months 2007 reached 33.6 million LTL (9.7 million EUR) and have increased by 22.9% compare to 27.3 million LTL (7.9 million EUR) a year ago.
Profit before profit tax (EBT) for the 6 months 2007 reached 11.6 million LTL (3.4 million EUR) and have increased by 29.4% compare to 9.0 million LTL (2.6 million EUR) a year ago.
Net profit for the 6 months 2007 was 9.5 million LTL (2.7 million EUR) and has increased by 31.0% compare to 7.3 million LTL (2.1 million EUR) a year ago.

31.08.2007
The interim financial statements and interim report for 6 months of 2007
The interim financial statements and interim report for 6 months of 2007 of AB Pieno Žvaigždės, as well as managers' confirmation letter are ready for acquaintance.

21.09.2007
Acquisition of own shares
On 27 April 2007 the shareholders took a decision to purchase own shares and, based on the mentioned decision, on 20 September 2007 the Board of Directors of AB Pieno Žvaigždės approved the following terms and conditions for redemption of own shares:
1. To determine the price own shares redemption as equal to 6,00 Litas (Six Litas, 00 cents) for one ordinary share.
2. Minimum quantity to be purchased - 1 (one) ordinary share of AB Pieno Žvaigždės;
3. Maximum quantity to be purchased – 500,000 (Five hundred thousand) ordinary shares of AB Pieno Žvaigždės ;
4. Redemption duration - 14 days.
5. Redemption of own shares shall be started after registration of a voluntary official proposal with the Securities Commission of the Republic of Lithuania..

04.10.2007
Announcements in press
Pursuant to publications in press, we inform that AB Pieno Žvaigždės did not have any negotiations and is not in the process of such with the Latvian milk processing company „Valmieras piens“ regarding acquisition of the mentioned company.

19.09.2007
Acquisition of own shares
In accordance to the decision by the Annual General Shareholders Meeting held on 27 April 2007 to buy back shares, the Board of AB Pieno Žvaigždės approved the following conditions of the Offer on 18 October 2007:

1. Approve purchase price per one common share at LTL 6.00.
2. Minimal amount of shares to be purchased - 1 common share of Pieno Žvaigždės.
3. Maximum amount of shares to be purchased – 227,810 common shares of Pieno Žvaigždės.
4. The term of execution of the Offer - 14 days.
5. The Offer shall be executed subject to registration of the non binding official Offer with the Securities Commission of the Republic of Lithuania.

06.11.2007
AB Pieno Žvaigždės, not audited financial results for the 9 months 2007
Revenues for the 9 months 2007 reached 501.6 million LTL (145.3 million EUR) and have increased by 27.7% compare to the revenues of 392.7 million LTL (113.7 million EUR) a year ago.
EBITDA for the 9 months 2007 reached 65.1 million LTL (18.8 million EUR) and have increased by 39.8% compare to 46.6 million LTL (13.5 million EUR) a year ago.
Profit before profit tax (EBT) for the 9 months 2007 reached 31.0 million LTL (9.0 million EUR) and have increased by 67.2% compare to 18.5 million LTL (5.3 million EUR) a year ago.
Net profit for the 9 months 2007 was 25.4 million LTL (7.4 million EUR) and has increased by 69.2% compare to 15.0 million LTL (4.3 million EUR) a year ago.

06.11.2007
AB Pieno Žvaigždės, updated forecast for the entire year 2007
In line with actual results for 9 months 2007 AB Pieno Žvaigždės updates forecasts for the entire year 2007 as follows:
Sales for entire year 2007 expected to increase from LTL 594.4 million (EUR 172.2 million) to LTL 650 million (EUR 188.2 million), by 9.3%.
Net year end profitability expected at 4.5%, by 0.5% higher over initially budgeted 4.0%.

30.11.2007
AB Pieno Žvaigždės, Financial statements for the 9 months 2007
The interim financial statements for 9 months of 2007 of AB Pieno Žvaigždės, as well as managers' confirmation letter are ready for acquaintance.

05.12.2007
AB Pieno Žvaigždės, financial estimates for the year 2008
In 2008 Pieno Žvaigždės forecast sales of approx. 750 million LTL (217 million EUR). The major sales growth will be coming from export markets where proceeds will account to over half of total sales in 2008.
The company's management is further implementing cost management programs to partly compensate increase in direct processing cost (raw material, salaries, energy, etc.).
Investment program for the coming year includes investments into capacity expansion, new products, transportation, raw material procurement and sales & distribution, IT systems. In line with increased demand the company will introduce new products in 2008.
Taking into account growth of export sales, implementation of investment programs and an increase in direct processing cost, the company's management forecasts net margin of approx. 4% in 2008.

18.01.2008
AB Pieno Žvaigždės, signed a market making agreement with Orion Securities
AB Pieno Žvaigždės, signed a market making agreement with Orion Securities. According to the agreement, Orion Securities will start market making activity from January 22nd 2008.

6. OTHER INFORMATION

There is no other information that should be disclosed in the annual statement under the legal acts governing the activities of companies or other legal acts or the Articles of Association of the company.

Addendum No.1

Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company *AB Pieno Žvaigždės*, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange (VSE), discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of the company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company presents forecasts announcing significant events through the Vilnius Stock Exchange system, however due to competition in the market, the Company cannot disclose certain strategies.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Council in the Company. Control over the Board is performed by General Shareholders Meeting, to which the Board reports.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	An executive body in the Company is the Board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company does not follow this recommendation and has an executive body – the Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	The Company complies with majority of Principle III statements, however does not comply with Principle IV due to the fact that no committees have been formed.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board consists of 10 members who represent shareholders interests. This number of members is sufficient.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Board members are elected for maximum 4 years. There are no limitations for re-election.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's general manager is not the chairman of the Board. No obstacles for independent and objective supervision exist.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[1]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Company discloses information about candidates to the Company's executive body. The shareholders structure does not contain any dominating shareholders. All active shareholder groups have their representatives in the Board.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about members of collegiate body is presented in the annual report of the company. Before election of members of the collegiate body, information about them is planned to be presented together with the meeting's documentation.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Information about members of collegiate body is presented in the annual report of the company. Before election of members of the collegiate body, information about them is planned to be presented together with the meeting's documentation.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	Members of the collegiate body have extensive experience in the enterprise management, have versatile knowledge and skills for proper execution of duties.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Members of the collegiate body have extensive experience in the enterprise management. Should new candidates be proposed, they would be acquainted with the situation in the Company and specifics of management.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[2] number of independent[3] members.	Yes	More than 1/3 of the Board are independent members

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she should not be the controlling shareholder or should not represent such a	Yes	

shareholder (the control is determined in accordance with the Council Directive 83/349/EEB, article 1, part 1; 5)directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6)He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7)He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		

3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The Company has not established additional criteria regarding independency of the Board members.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	Based on the independency criteria, set in paragraph 3.7., independent members of the Board are: - Kjell Lennart Carlsson - Hans Mideus - Paul Bergqvist - Julius Kvaraciejus
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	The criteria are met throughout the year
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	No	Remuneration from the Company's funds to the members of the collegiate body for their work and participation in sittings of the collegiate body is not subject to approval at the general meeting.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The management submits reports to the collegiate body at least once per quarter and gets recommendations. The Board approves the annual report prepared by the management.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	The Board members perform on their good will on behalf of the company, follow the company's interests trying to maintain independency in decision making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[4] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the collegiate body properly fulfill their duties: take active part in sittings and allot sufficient time for execution of duties. All sittings of the collegiate body have a quorum.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[5]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	For execution of work the Board has all financial conditions and is independent from the company's management.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	No committees are established.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	No committees are established.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	No committees are established.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	No committees are established.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	No committees are established.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	No committees are established.

4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; company for their opinion on the remuneration of other executive directors or members of the management bodies.	No	No committees are established.

2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the	No	No committees are established.

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;		

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Board periodically performs evaluation of its activity but this procedure is not prescribed.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	This regulation in the Company is realized by the Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The Board sittings are convened at least once per quarter.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The Company cannot realize this principle as it has only the collegiate body – the Board.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Ordinary shares comprising the share capital provide equal rights to all shareholders of the Company.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[6] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company does not keep to this regulation due to settled practice, stipulated by faster decision making and efficiency. The major shareholders have representatives in the Board which is the decision-maker.

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6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	All shareholders are informed about the date, place and time of the general meeting. The shareholders can get information on the meeting's agenda beforehand.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[7]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	No	Documentation prepared for the general meeting, including drafts of decisions, are submitted through the Vilnius Stock Exchange information system. This information is sent by e-mail to any shareholder upon his/her request.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders can participate in the shareholders meeting in person or through a representative provided he/she has an authorization. The company provides a possibility to shareholders to vote by filling in a voting bulletin.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Until now there was no need to realize this recommendation.

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Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	In the annual report the company provides information about remuneration to management and average salaries to administration staff and workers. The mentioned information is presented based on the practice applied in the company and Lithuania.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The company does not apply these regulations in practice.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	The company does not apply these regulations in practice.

8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The company does not apply these regulations in practice.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The company does not apply these regulations in practice.
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The company does not apply these regulations in practice.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;	No	The company does not apply these regulations in practice.

5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		

8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	The company does not apply these regulations in practice.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4)The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		

8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

<table>
<tr><td colspan="3">Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</td></tr>
<tr><td>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</td><td rowspan="3">Yes</td><td rowspan="3"></td></tr>
<tr><td>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.</td></tr>
<tr><td>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</td></tr>
</table>

Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	Information about the company pointed out in these recommendations is disclosed in the following sources: annual report, financial statements and notes to the financial statements, announcements on acquisition/disposal of shareholdings, announcements on significant events through the information system of the Stock Exchange.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Information through the Stock Exchange information system is presented in the Lithuanian and English languages at the same time. The Stock Exchange announces the information received in its internet site and trading system and thus ensures timely presentation of information to everybody. Furthermore, the company aims to announce the information before or after the trading session and provide it to all markets in which the company's shares are traded. Information which may influence the share price is not disclosed in any way until such information is publicly announced through the Stock Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	

11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Company follows this regulation. The Board proposes an audit firm for election to the general shareholders meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	N/a	The audit firm of the Company did not provide services other than audit and has not received any fee for that from the Company.