Vilkyškiu pienine AB

Consolidated Interim Financial Statement of 2008

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I. Vilkyškiu pienine AB

About the company

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

Management Board of Vilkyškiu pienine AB

The Management Board of the Issuer consists of the following persons: Gintaras Bertašius, Sigitas Trijonis, Rimantas Jancevicius, Ramunas Šniepis, Andrej Cyba and Linas Strelis

Director General of the Company is Gintaras Bertašius.

Significant accounting policies

Consolidated financial statements of Vilkyškiu pienine AB (company's code277160980) are prepared following International Standards of Financial Accountability.

Balance sheet

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

Profit and loss account

Thousand LTL	31/12/2008	31/12/2007	10-12/2008	10-12/2007
Sales revenue	155 303	136 274	37 629	36 863
Cost price of sales	-149 664	-114 230	-33 100	-31 404
Gross profit (loss)	5 639	22 044	4 529	5 459
Other operating income, net	998	21	363	-50
Expenditure of distribution	-6 016	-2 052	-2 049	-470
Administrative expenditure	-10 276	-6 321	-5 085	-2 242
Operating profit (loss)	-9 655	13 692	-2 242	2 697
Income from financial activity	539	93	0	57
Expenditure from financial activity	-4 242	-1 468	-1 403	-405
Net financing costs	-3 703	-1 375	-1 403	-348
Profit (loss) before taxes	-13 358	12 317	-3 645	2 349
Profit tax expenditure	-191	-2 303	-129	-434
Net profit (loss)	-13 549	10 014	-3 774	1 915
Attributable to:				
Shareholders of the company	-13 549	10 014	-3 819	1 917
Minority interest	45	0	90	-2
Net profit (loss)	-13 504	10 014	-3 729	1 915
Profit (loss) per share (LTL)	-1.44	1.07		

Cash flow statement

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

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

Statement on changes in equity

Thousand LTL	Share capital	Revaluation reserve	Compulsory reserve	Undistributed result	In total	Minority interest	Total equity
On the 1st of January 2007	9353	8764	919	4967	24003	51	24054
Net profit				10014	10014		10014
Increase of value of long-term tangible assets*		-344		423	79		79
Share issue of the subsidiary				88	88	14	102
Changes in the Group				23	23	-23	0
Transferred to reserves			16	-16	0		0
Dividends				-2057	-2057		-2057
Other							
Loss not included in loss and profit account							
On the 31 December 2007	9353	8420	935	13442	32150	42	32192
On the 1st of January 2008	9353	8420	935	13442	32150	42	32192
Net loss				-13549	-13549	45	-13504
Increase of value of long-term tangible assets*		-423		423	0		0
Share issue of the subsidiary	2590	11396			13986		13986
Changes in the Group				108	108		108
Dividends				-2030	-2030		-2030
Other	63				63		63
On the 31 December 2008	12006	19393	935	-1606	30728	87	30815

Explanatory notes

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

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

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

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

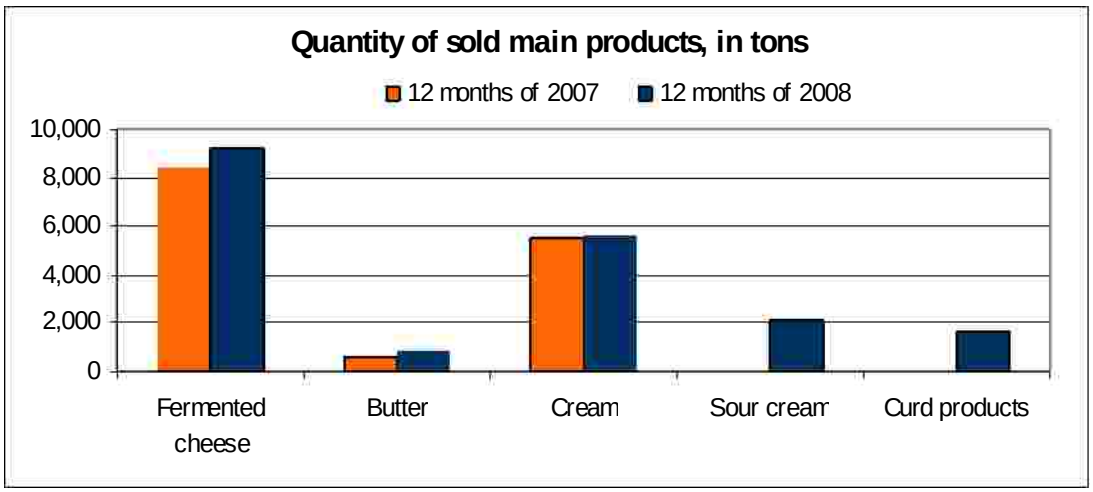
427 employees work in Vilkyškiu pienine AB, and together with Modest UAB and Kelmes pienine AB the total number of employees reaches 712.

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

however, year 2008 was loss-making due to the decreased demand and slumped prices of production. Preliminary consolidated loss of the year 008 reached LTL 13 million, whereas the reappraisal of stock in the end of 2008 compounded LTL 3 million thereof. The 4th quarter was more successful. Without taking into account the reappraisal of stock, the loss suffered by the group reached only LTL 600 thousand. Low prices of dairy products, which were conditioned by the excess of production in Europe, as as the reappraisal of stock were the main causes of loss, suffered by the group of companies, also during 2008 the Company faced non-recurring expenses due to acquisition and integration of AB „Kelmes pienine".

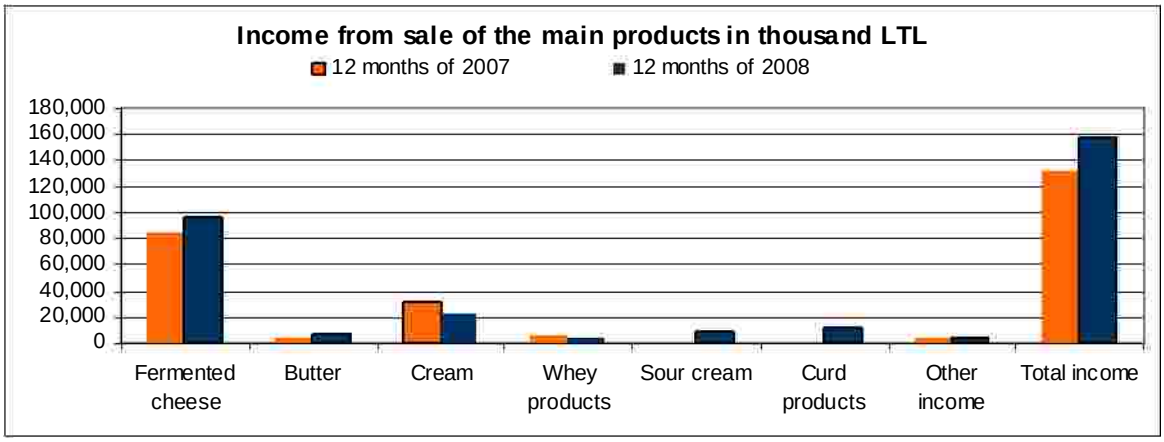
The Company expects that the year 2009 will be more successful because the prices of raw milk are lower compared with the year 2008, and the expenditures of production, management and administration have been cut down significantly.

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



Quantity of sold main products, in tons

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



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

Material events

From the 1st of January 2008 shares of Vilkyškiu pienine AB have been quoted in the Official List of Vilnius Stock Exchange.

On the 31st of January 2008 Vilkyškiu pienine AB has concluded the contract on the purchase of 99.09 percent of shares of Kelmes pienine In March Vilkyškiu pienine AB received the permission from the Competition Board to acquire up to 100 percent of shares of Kelmes pienine AB

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

On the 7th of March 2008 the Extraordinary General Meeting of Shareholders decided to increase Company's authorized capital by issuing a new emission of 2,590,000 shares, with the redemption price of a new emission not lower than L 5.40 per share. The money received form the increase of the authorized capital was used to acquire Kelmes pienine AB.

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

On the 17th of April 2008 Vilkyškiu pienine AB presented the prospectus of share emission registration.

On the 17th of April 2008 Vilkyškiu pienine AB presented to the Securities Commission of the Republic of Lithuania the prospectus of 2 590 000 units of shares emission registration. The Securities Commission of the Republic of Lithuania approved the prospectus and the new emission with be added to the present emission that is being quoted in the market.

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

On the 10th of May 2008 the prospectus of ordinary registered shares of Vilkyškiu pienine AB was approved.

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

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

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

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