

## *Pieno Žvaigždės AB*

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*Pieno Žvaigždės AB* is one of the largest and most modern milk processing companies in the Baltic States. It unites four large local milk processing companies such as Mažeikių Pieninė AB, Pasvalio Sūrinė AB, Kauno Pienas AB and Panevėžio Pienas AB. The majority of its products are exported to Russia, the Baltic countries and European Union.

*Pieno Žvaigždės AB* pays major attention to assortment and quality of its products. At present, about 500 products of different names are produced in dairies owned by concern *Pieno Žvaigždės AB*. With regard to the European tendencies and changing customer needs, the range of its products is continuously renewed and new products are introduced to customers each year. All companies are constantly modernised and the latest technologies, the modern manufacturing and packaging equipment, quality laboratories are being installed, systems of product ordering, transportation and storage are under constant modernisation. All the companies of *Pieno Žvaigždės AB* are certified by ISO 9001 quality standards.

Since 2 January 2002 shares of *Pieno Žvaigždės AB* are listed on the Official List of Vilnius Stock Exchange.

To continue the company's modernisation and expansion of manufacturing capacities and attract funds necessary for investment, company *Pieno Žvaigždės AB* issues bond emission of LTL 20 mio with a maturity of 3 years. It is the first bond issue of *Pieno Žvaigždės AB*.

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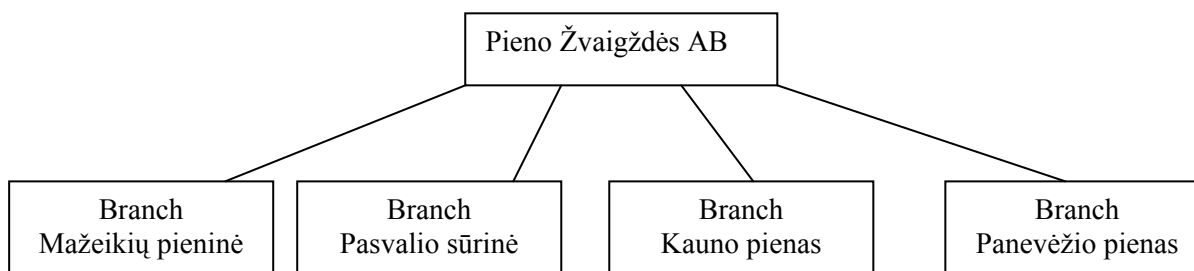
### Issue data:

Issuer	<i>Pieno Žvaigždės AB</i>
Issue nominal value	LTL 20,000,000
Bond par value	LTL 100
Annual interest	IRS + 1.1 per cent
Maturity	1,096 days
Coupon payment dates	1 <sup>st</sup> coupon – 2 October 2007. 2 <sup>nd</sup> coupon – 2 October 2008 3 <sup>rd</sup> coupon – 2 October 2009.
Placement period	12 September 2006 – 29 September 2006.
Bond redemption date	2 October 2009
Currency	Litas
Distributor	SEB Vilniaus Bankas
Placement method	Public placement

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## Short History and Structure of the Issuer

*Pieno Žvaigždės* AB (“The Company”) was established in 1998 by way of merger of *Mažeikių Pieninė* AB (dairy) and *Pasvalio Sūrinė* AB (cheese making plant). In the year 2000, dairy AB *Kauno Pienas* was merged with *Pieno Žvaigždės* AB. At the close of 2003, *Pieno Žvaigždės* AB owned 64.2 per cent of shares of the subsidiary *Panevėžio Pienas* AB. During the year 2004 the Company acquired the remaining shares of its subsidiary and at the end of the same year *Panevėžio Pienas* AB was merged with *Pieno Žvaigždės* AB and acquired the status of a branch. As of 30 June 2006, *Pieno Žvaigždės* AB had 2,642 employees.



Source: *Pieno Žvaigždės* AB

## Shareholder Structure

Authorised capital of *Pieno Žvaigždės* AB totalling LTL 54,205,031 is split into 54,205,031 ordinary registered shares at par value of LTL 1 each.

Major shareholders of *Pieno Žvaigždės* AB (as of 30 June 2006):

Shareholder	Number of ordinary registered shares owned by the right of ownership	Share of authorised capital, %	Share of the votes given by the shares owned by the right of ownership, %	Share of votes of shareholders that are acting jointly, %
Skandinaviska Enskilda Banken klientai	8 875 834	16,37	16,47	16,47
<i>Agrolitas Imeks Lesma</i> UAB	6 035 816	11,12	11,20	11,20
Swedfund International	4 700 000	8,67	8,72	8,72
<i>Smilgelė ŽŪKB</i>	4 147 441	7,65	7,69	7,69
Hansabank customers	3 850 688	7,10	7,14	7,14
Kvaraciejus Julius	5 391 492	9,95	10,00	27,05

Source: *Pieno Žvaigždės* AB

## Lithuanian Dairy Sector Review

Small milk supplier farms and milk processing concentration in the largest milk processing companies are typical of the Lithuanian dairy sector. At the close of the year 2006, Lithuania had 164.6 thou farms with the average number of less than 3 (2.7) dairy cows. Irrespective of the Lithuanian dairy farms

growth within a one-year period, they are the smallest as compared to farms in other EU member states. The small farms representing comparatively large part of milk manufacturers are paid lower price for supplied milk than large suppliers what results in low average price of milk purchase and high milk collection and delivery prices compared to other EU countries. In 2005, the average buying-up price of natural milk in Lithuania stood at LTL 676 per ton and, as compared to the year 2004, it grew by 15 per cent. In the 15 old members of the European Union, the average price per 1 ton of natural milk amounted to LTL 985, or was lower by 2.4 per cent than in 2004. In the nearest future, shortage of raw milk in the country and grow in scale of farms should determine increase in price of raw milk, however growth of milk buying-up prices will be suspended by drop in prices in the old member states of the European Union and possibility to import milk from the neighbouring countries, mostly from Latvia. At present, milk imported from Latvia makes about 7 per cent of raw milk processed in the Lithuanian dairies.

In the year 2005, 1,896 thou tons of milk were processed in Lithuania, i.e., more by 47 thou tons than in 2004. Despite of dropping number of dairy cows in the country, quantity of received milk increased, which was determined by improving productivity of cows. Last year, the average yield of milk per cow made up 5.4 tons. As compared to the previous year review, yield of milk per cow grew by 165 kg. The average yield of milk per cow in the European Union is about 6.2 tons per year, therefore we may expect that in the nearest future productivity of dairy cows in Lithuania will continue to improve.

In the year 2005, income of milk processing companies from sold milk products totalled LTL 1,617 thou (excluding VAT and excise duties), or more by LTL 131 mio (9 per cent) compared to the year 2004. LTL 757 mio (47 per cent) of said amount were received from sales in the local market, and LTL 860 mio (53 per cent) – from exports. The main export countries for Lithuanian dairy products are Italy and Russia. Over the recent years, the export volume and value were growing. After Lithuania's accession to the European Union, growth of exports to the European Union was stimulated by removal of barriers in trade and to third countries – by the export subsidies.

### **Company's Activity and Business Strategy**

*Pieno Žvaigždės* AB buys up fresh milk from the Lithuanian farms, processes and uses it for product manufacturing. In the 2005, the company purchased 318 thousand tons of natural milk and paid for it LTL 213.6 mio. The average price of the bought up milk stood at LTL 672 per ton. More than 15 thousand suppliers in Lithuania deliver raw milk to the company and a certain portion of milk is imported from Latvia. The company buys raw milk by using its own milk buying-up system.

*Pieno Žvaigždės* AB pays special attention to manufacturing of fresh milk products and development of export markets. Currently, the company produces about 500 products of different names. To strengthen its market position and increase competitiveness in the market, the company pays great attention to product quality control, new product development, design and package renewal, brand name strengthening, manufacture and sale efficiency improvement. The company's dairies are continuously upgraded, new technologies and modern manufacturing equipment installed. At present, the company uses only 60-70 per cent of its manufacturing capacity, thus in future the company may quite easily increase product output and sales volume.

*Pieno Žvaigždės* AB manufacturing volume and income structure in 2003-2005 is presented in the Table below. The Table shows that quantity of the Company's products and income over the recent years were gradually growing. By quantity and value fresh milk products and fermented cheese make the major share of product output – about 50 per cent and 38 per cent respectively.

Rise in raw milk prices and favourable situation in the market determined increase in prices of the great majority of *Pieno Žvaigždės* AB products. Since 2003, price of fresh milk products, fermented cheese grew by 21.3 per cent and 33.5 per cent, respectively, butter price grew by 37.3 per cent, while milk and whey powder price shrank by 15.3 per cent.

## Product Sales

Product type	2003		2004		2005		1H 2006	
	Volume in tons	LTL thou	Volume in tons	LTL thou	Volume in tons	LTL thou	Volume in tons	LTL thou
Fresh milk products	99 099	209 345	103 623	212 948	102 998	232 543	46.941	120.059
Fermented and melted cheese	12 941	98 672	14 937	136 366	15 807	159 295	9.248	94.094
Butter	4 410	30 623	3 270	25 996	3 331	31 661	1.705	16.245
Milk and whey powder	7 175	20 175	6 114	15 367	5 799	11 984	4.514	10.762
Ice-cream	1 314	7 837	972	6 129	1 090	7 205	559	3.621
Other products		872		705		3 643		3.904
<b>Total:</b>	<b>124 939</b>	<b>367 525</b>	<b>128 916</b>	<b>397 512</b>	<b>129 025</b>	<b>446 331</b>	<b>62.967</b>	<b>248.687</b>

Source: *Pieno Žvaigždės* AB

## Average Sales Price (ASP) Dynamics

Product type	Measurement unit	2003	2004	2005	1H 2006
Fresh milk products	LTL/kg	2,11	2,06	2,26	2,56
Fermented and melted cheese	LTL/kg	7,62	9,13	10,08	10,17
Butter	LTL/kg	6,94	7,95	9,50	9,53
Milk and whey powder	LTL/kg	2,81	2,51	2,06	2,38
Ice-cream	LTL/kg	5,96	6,31	6,61	6,48

Source: *Pieno Žvaigždės* AB

## Product Sales Markets

Products of *Pieno Žvaigždės* AB are sold in Lithuania and also exported. Russia, the European Union and Baltic countries are the main export markets. Semi-dry enzyme cheese, butter, dry separated milk and whey milk account for the major share of exports. The largest portion of fresh milk products such as milk, fermented milk, butter, cream, various types of curd, yoghurts, milk deserts and enzyme cheese are sold in Lithuania. *Pieno Žvaigždės* AB sells its products in Lithuania to major trade centres (about 50 per cent) and other retail traders (about 50 per cent) using its logistics system. Products to the Russian market and other countries are sold via trade intermediaries.

In the year 2005, *Pieno Žvaigždės* AB generated income of LTL 446,3 mio of which export income amounted to LTL 190.0 mio. In the year 2005, export income share made up 42.6 per cent and since the year 2003 it grew by 10.7 percentage points. Growth of exports to the West since 2004 was determined by Lithuania's accession to the European Union. Development in Russia and other third countries was stimulated by initiated payment of export subsidies for products sold outside the European Union. The company gives priority to export growth and such development is mostly expected in Russia.

## Sales Markets

Country name	2003		2004		2005		1H 2006	
	LTL thou	%	LTL thou	%	LTL thou	%	LTL thou	%
Lithuania	250 369	68,1%	235 296	59,2 %	256 357	57,4 %	137 328	55,2%
Russia	67 484	18,4 %	89 691	22,6 %	126 021	28,2 %	84 450	34,0%
Latvia	5 532	1,5 %	23 425	5,9 %	23 019	5,2 %	7 787	3,1%
Germany	6 086	1,7 %	13 511	3,4 %	13 039	2,9 %	8 737	3,5%
Other countries	38 154	10,3 %	35 589	8,9 %	27 895	6,3 %	10 385	4,2%
<b>Total:</b>	<b>367 625</b>	<b>100%</b>	<b>397 512</b>	<b>100%</b>	<b>446 331</b>	<b>100%</b>	<b>248 687</b>	<b>100%</b>

Source: *Pieno Žvaigždės* AB

## Major Competitors

Major competitors of *Pieno Žvaigždės* AB in the local market are as follows: *Rokiškio Sūris* AB, *Žemaitijos Pienas* AB, *Vilkyškių Pieninė* AB and *Kelmės Pieninė* AB. Large and medium-sized European and Russian milk processing companies are the company's major competitors in the export markets.

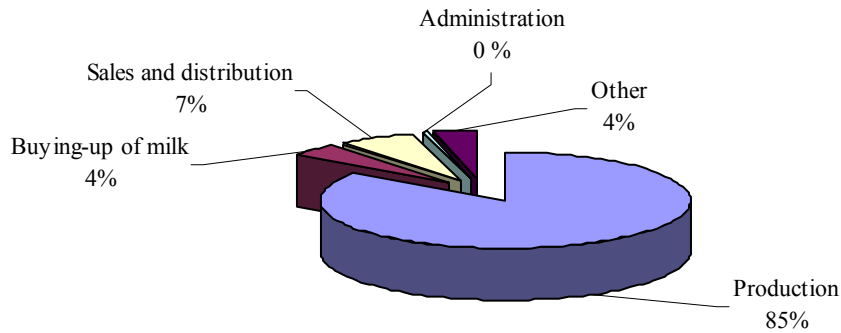
## Income of Lithuanian Milk Processing Companies, LTL mio

Company name	2002	2003	2004	2005	2006F
<i>Rokiškio Sūris</i> AB	374,2	369,6	451,4	473,3	502,0
<i>Pieno Žvaigždės</i> AB	331,7	367,6	397,5	446,4	495,0
<i>Žemaitijos Pienas</i> AB	225,9	254,6	337,9	369,0	n.d.
<i>Marijampolės Pieno Konservai</i> UAB	29,0	59,5	147,1	203,3	220,0
<i>Vilkyškių Pieninė</i> AB	46,6	54,0	75,1	91,7	112,8
Other companies	41,6	83,5	77,3	33,3	n.d.
<b>Total</b>	<b>1049,0</b>	<b>1188,8</b>	<b>1486,3</b>	<b>1617,0</b>	<b>n.d.</b>

## Investment

From the year 2000 by the end of 2005, *Pieno Žvaigždės* AB invested more than LTL 220 mio to upgrading of manufacturing and logistics bases and business development. The share of investments in 2005 amounted to LTL 52.8 mio.

## Structure of investment in 2005



Source: *Pieno Žvaigždės* AB

During 2006 – 2007, *Pieno Žvaigždės* AB plan to invest more than LTL 50 mio. Over the first six month of the current year, investments amounted to LTL 12.6 mio. The largest portion of funds will be invested to whey processing and renewal of milk trucks' park. The company plans to finance the major share of investment from its own funds and income generated from the bond placement.

Investment trend in 2006-2007	Amount	Financing source	Amount
Investments in the first half of 2006	LTL 12.6 mio	Own funds	LTL 20.2 mio
Whey processing	LTL 15.0 mio	Bond funds	LTL 20.0 mio
Cutting and packaging of fermented cheese	LTL 5.0 mio	Bank loans and financial lease	LTL 8.0 mio
Upgrading of cottage cheese manufacturing	LTL 5,0 mio	Support from the Structural Funds	LTL 3.4 mio
Upgrading of pouring line	LTL 4.0 mio	Total:	LTL 51.6 mio
Renewal of milk trucks' park	LTL 10.0 mio		
Total:	LTL 51.6 mio		

Source: *Pieno Žvaigždės* AB

## Investment Advantages and Potential Risks

To ensure successful implementation of investment projects and attract funds necessary for investment, one of the largest milk processing companies in the Baltic countries - *Pieno Žvaigždės* AB has selected a corporate financing method popular in West countries, i.e., bond issue. Corporate bonds are attractive investment instrument giving an opportunity for investors to play a significant role in the company's development.

- **Well-known brand name and local market share.** *Pieno Žvaigždės* AB is one of the well-known milk processing companies with its local milk market share by income of nearly 30 per cent. Trademarks of the company' products are well known and quality is highly appreciated by consumers;

- **Favourable environment for export.** The company's export volume during the recent years increased as well as export share in its income structure. Export volume growth is determined by favourable trade opportunities in the European Union countries and export subsidies for products sold in third countries. The company is issued certificates necessary for product export;
- **Share listing on Vilnius Stock Exchange.** Shares of *Pieno Žvaigždės* AB are listed on the Official List of Vilnius Stock Exchange therefore information about the company's previous activity, financial standing and major events of the issuer's business is available to the public.
- **Activity and market diversification.** The company produces a lot of different products and sells its products to different countries. Independence from the only one market and variety of products ensure continuous income and reduces income fluctuation risk;
- **Settlement with creditors.** The company has no overdue creditor liabilities and always timely settles with its creditors;

Milk processing company *Pieno Žvaigždės* AB in its daily operations faces the risk typical of business entities engaged in similar type of activities:

- **Increase in milk buying-up price.** Irrespective of rapid increase in milk buying-up price, the average buying-up prices of milk in Lithuania are still lower than in the neighbouring countries and the old member states of the European Union, thus it is likely that prices of raw milk will grow. Rising milk buying-up prices can make a negative impact on the company's profitability ratios.
- **Shortage of raw material.** Favourable environment for exports and unutilised manufacturing capacities increase demand for raw milk, however its supply in the country is limited. Shortage of raw milk may determine slower development of the company than projected.
- **Market risk.** The majority of *Pieno Žvaigždės* AB products are exported to Russia. Frequent amendments of acts of law, change in requirements and restrictions applied to product import, which are common for Russia, may impede export sales in this country.
- **Interest risk.** The largest number of loans are issued to the company with variable interest rate therefore recently rising interest rates may result in higher financial expenditures and make a negative impact on the company's profit.

## Finance Review

The financial statements of *Pieno Žvaigždės* AB have been prepared in accordance with International Financial Reporting Standards. Annual financial reports for 2003 – 2005 were audited and semi-annual reports – not audited. The financial year of the company coincides with the calendar year.

## Income

Since the year 2003, the average increase in the company's income per year made up 10.4 per cent. Income growth was determined by higher manufacturing volume, rise in production prices and export growth. During the first half of this year, income of *Pieno Žvaigždės* AB amounted to LTL 248,7 mio, or was higher by 20.4 per cent than during the equivalent period of the previous year. During the entire year, the company expects to generate income of LTL 495 mio, or higher by 10.9 per cent than in the year 2005.

In future, the company expects to retain the average annual growth of income by 10 per cent. Income growth should be determined by higher manufacturing and sales volumes and rising product prices (at present only 60-70 per cent of manufacturing capacities are used).

Financial data, LTL thou	2002	2003	2004	1H 2005	2005	1H 2006
Income	331 650	367 625	397 512	206 534	446 331	248 686
Gross profit (loss)	53 199	89 342	89 338	39 366	91 515	46 832
Gross profit margin	16,0%	24,3%	22,5%	19,1%	20,5%	18,8%
EBITDA	7 740	43 166	37 877	21 386	52 570	27 341
EBITDA margin (per cent)	2,3%	11,7%	9,5%	10,4%	11,8%	11,0%
Operating profit	-9 318	22 033	13 928	8 252	23 093	11 162
Operating profit margin (per cent)	-2,81%	5,99%	3,50%	4,00%	5,17%	4,49%
Net profit (loss)	-6 732	17 066	14 024	5 056	15 294	7 263
Net profit margin (per cent)	-2,0%	4,6%	3,5%	2,4%	3,4%	2,9%
ROAE, per cent	-	18,9%	13,8%	4,6%	13,8%	6,5%
ROAA, per cent	-	7,76%	5,88%	2,03%	5,78%	2,73%

### Profitability

Gross profit of *Pieno Žvaigždės* AB over the recent years grew insignificantly and net profit margin slightly dropped. Gross profit growth, irrespective of increase in income, was suspended by a rapid rise in milk buying-up prices, growth of labor costs and fuel costs. In the year 2005, gross profit of *Pieno Žvaigždės* AB amounted to LTL 91.5 mio, net profit margin made up 20.5 per cent. The same trends of change in gross profit were observed in the first half of this year – it went up by 19 per cent, or up to LTL 46.8 mio, and gross profit margin dropped from 19.1 per cent to 18.8 per cent.

In the year 2005, increased sales and lower sales and administrative expenses determined operating profit growth by 65.8 per cent, or up to LTL 23.1 mio, and operating profit margin increased from 3.5 per cent in the year 2004 to 5.2 per cent in 2005. Operating margin increased irrespective of higher depreciation costs due to higher investment volumes during the recent years. Over the first-half of the current year, operating profit of *Pieno Žvaigždės* AB amounted to LTL 11.2 mio, or was higher by 35.3 per cent than that during the adequate period of last year. Operating profit margin in the first half-year increased from 4.0 per cent to 4.5 per cent.

Since the year 2003, net profit margin of *Pieno Žvaigždės* AB was dropping. Downward trend of net profit margin was determined by implementation of investment projects financed from borrowed funds that resulted in the higher interest expenses. In the year 2005, the company generated net profit of LTL 15,3 mio, or higher by 9.1 per cent than a year ago, however net profit margin over the equivalent period dropped from 3.5 per cent to 3.4 per cent. Over the first half of this year, *Pieno Žvaigždės* AB earned net profit of LTL 7.3 mio, or higher by 43.7 per cent as compared to last year, and net profit margin jumped from 2.4 per cent to 2.9 per cent. This year, the company plans to achieve net profit margin of 4%– 5%. Thus, if the company generated projected income of LTL 495 mio, its net profit may total LTL 19.8-24.8 mio.

In future, the company's profit margin may be positively influenced by increased manufacturing efficiency due to investment, restructuring of sales system and management structure, development of high added-value products, however fierce competition between manufacturers, rising prices of milk and other resources, higher interest expenses may negatively influence profitability.

### Assets and Assets Structure

since the year 2003 assets of milk processing company *Pieno Žvaigždės* AB increased by 9.8 per cent per year on average. It was mainly determined by the merger of *Kauno pienas* AB and *Panevėžio pienas* AB and also by implemented investment projects. Fixed assets make the major share of the

company's assets, as well as in assets structure of other manufacturers, i.e., about 63%-68% of the total assets. As of 30 June 2006, assets of *Pieno Žvaigždės* AB totalled LTL 282.5 mio of which fixed assets amounted to LTL 176.9 mio. During one year, the company's assets grew by 3.2 per cent. Tangible assets of the company represent nearly all value of fixed assets. In the nearest future, value of the company's fixed assets should also increase after projected investments.

At the end of the first half of the year, value of current assets representing nearly one third of the total assets stood at LTL 105.7 mio, or higher by 34.1 per cent as compared to the adequate period of the year 2005. Due to higher manufacturing and trade volumes, the company's inventory over a year increased by 35.6 per cent, or up to LTL 41.8 mio, receivables – by 23.7 per cent, or up to LTL 56.0 mio, cash and cash equivalents – 2.9 times, or up to LTL 7.9 mio.

At the close of 2005, *Pieno Žvaigždės* AB security for bank loans that consisted of tangible fixed assets, inventory and cash amounted to LTL 109.4 mio and land lease rights. Pledged assets made up 39 per cent of the total assets of the company.

	2002	2003	2004	1 H 2005	2005	1 H 2006
Assets	212 280	227 829	248 835	250 243	280 588	282 507
Current assets / Assets	37,7%	32,9%	36,1%	31,5%	35,4%	37,4%
Fixed assets / Assets	62,3%	67,1%	63,9%	68,5%	64,6%	62,6%
Capital ratio	40,4%	41,6%	43,4%	44,7%	40,7%	39,7%
Liabilities / Assets	53,0%	53,6%	56,6%	55,3%	59,3%	60,3%
Leverage ratio	1,3	1,3	1,3	1,2	1,5	1,5
Financial debt / Liabilities	60,9%	64,6%	66,8%	64,7%	72,8%	71,3%
Financial debt / Equity	0,8	0,8	0,9	0,8	1,1	1,1
Current ratio	1,3	1,1	1,2	1,1	1,5	1,9

### Capital and Capital Structure

Own equity made up about 40-45 per cent and liabilities – nearly 55-60 per cent of *Pieno Žvaigždės* AB capital. Relatively slight changes in the capital structure with liabilities rising were determined by a lucrative activity of the company and additionally - by retained profit. At the close of the second quarter of 2006, the company's own equity stood at LTL 112,1 mio, or a growth of 0.2 per cent as compared to the equivalent period of the previous year. The company's liabilities during one year went up from LTL 138.4 mio to LTL 170.4 mio, or by 23.1 per cent due to growth of loans. Increase in liabilities resulted in drop of equity ratio from 44.7 per cent to 39.7 per cent and leverage ratio grew from 1.2 to 1.5.

The financial debts make the largest share of the company's liabilities: from 2002 to 2005, the share of said debts increased from 60.9 per cent to 72.8 per cent. At the end of the first half of this year, the financial debts amounted to LTL 121.5 mio, or 71.3 per cent of total liabilities. If compared the financial debts with own equity, the financial debts that in the year 2002 made up 80 per cent of own equity, currently exceed it by nearly 10 per cent.

If bonds of *Pieno Žvaigždės* AB are successfully placed, the company's liabilities should increase, however taking into consideration the company's capital such increase should be positively valued and should not be deemed to be credit risk.

Based on data of the financial statements of *Pieno Žvaigždės* AB, the company's current solvency ratio exceeds 1. Such ratio of the company engaged in milk processing shows that the company's assets are sufficient for fulfilment of its short-term liabilities and its management of cash flows and working capital is efficient.

To establish the company's demand for working capital financing, turnover of receivables and inventory in days with turnover of payables in days was compared. Data of last three financial years show that demand for working capital financing at the close of the year 2005 increased: in years 2003–2004 – 35 days, in 2005 – 37 days. Comparison of the above-mentioned ratios at the end of the first half of 2005 and at the end of the first half of 2006 showed that value of such ratios in days was 33 and 38 days, respectively. Increasing duration of the financing demand shows that the company has to find methods to satisfy growing demand for working capital necessary to finance its activities and increasing credit risk of the company.

## Financial Debts

The financial debt of *Pieno Žvaigždės* AB since 2002 was growing each year due to significant investment. The average annual growth of the financial debt made up nearly 21 per cent and at the close of 2005 it amounted to LTL 121.2 mio. During the first six-months of this year, the financial debt slightly increased and amounted to LTL 121.5 mio, however it was higher by 35.6 per cent compared to the end of June 2005. Growth of the financial debts in the second half of last year was determined by acquisition of the manufacturing equipment. Based on the company's forecast, its debts at the end of the current year should not exceed LTL 130 mio. The company's net financial debt due to cash and cash equivalents is lower by 5 per cent than the total financial debt.

Long-term financial debts make the largest share of *Pieno Žvaigždės* AB financial debts. At the close of 2006, the financial debts made up about 90.7 per cent of the total debt, and its value amounted to LTL 110,3 mio. Over a year, the long-term debt increased by LTL 47.8 mio, or by 76.5 per cent. If placement of bonds of LTL 20 mio is successful, its long-term debt by the year-end should increase further. The company's short-term financial debt at the end of the first half of the current year totalled LTL 11.3 mio, i.e., over the one-year period it shrank 2.4 times.

Interest coverage ratio (EBITDA/net interest) shows the company's potential to pay interest. During 2003-2005, interest coverage ratio of *Pieno Žvaigždės* AB exceeded 10 and such ratio value shows that income received by the company' was sufficient to fulfil its financial obligations to creditors without difficulty. During the first half of the year, the company's EBITDA exceeded net interest 12.8 times.

Growth of the financial debt results in the increase of the company's credit risk, however stable cash flows and favourable economic environment for the company's business, increase in manufacturing capacities, manufacture efficiency improvement should determine income growth in the nearest years and opportunity to settle with the company's creditors.

Financial debts	2002	2003	2004	1H 2005	2005	1H 2006
Short-term debt, LTL thou	15 994	29 000	32 377	27 127	24 273	11 259
Short-term debt, <i>per cent</i>	23,3%	36,8%	34,4%	30,3%	20,0%	9,3%
Long-term debt, LTL thou	52 531	49 899	61 642	62 480	96 877	110 268
Long-term debt, <i>per cent</i>	76,7%	63,2%	65,6%	69,7%	80,0%	90,7%
<b>Total debt</b>	<b>68 525</b>	<b>78 899</b>	<b>94 019</b>	<b>89 607</b>	<b>121 150</b>	<b>121 527</b>
<i>Change in total debt, per cent</i>		15,1%	19,2%		28,9%	35,6%
Cash and cash equivalents	3 157	6 156	4 043	2 730	4 844	7 880
<b>Net debt</b>	<b>65 368</b>	<b>72 743</b>	<b>89 976</b>	<b>86 877</b>	<b>116 306</b>	<b>113 647</b>
<i>Change in net debt, per cent</i>		11,3%	23,7%		29,3%	30,8%
Net interest, LTL thou	-2 676	-3 651	-3 222	-2 486	-3 836	-2 142
EBITDA/net interest, (times)	2,9	11,8	11,8	8,6	13,7	12,8

**Financial Debts and Creditors of *Pieno Žvaigždės* AB as of 31 December 2005**

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<b>Lender</b>	<b>Loan currency</b>	<b>Outstanding loan, LTL thou</b>
SEB Vilniaus Bankas	Litai	35 613
<i>Hansabankas</i> AB	Litai	21 578
DnB NORD bankas AB	Litai	27 242
Leasing companies	Litai	36 717

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Source: *Pieno Žvaigždės* AB

SEB Vilniaus Bankas is the main creditor of the company. Till today, the company timely fulfilled its obligations to the Bank.

*Pieno Žvaigždės* AB did not provide any surety or guarantee to any company.

## Financial Statements of Pieno Žvaigždės AB

<b>Balance sheet, LTL thou</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1H 2005</b>	<b>2005</b>	<b>1H 2006</b>
<b>Non-current assets</b>	<b>132 311</b>	<b>152 852</b>	<b>158 971</b>	<b>171 434</b>	<b>181 209</b>	<b>176 857</b>
<i>Annual change (per cent)</i>		15,5%	4,0%		14,0%	3,2%
Intangible assets	432	1 967	2 370	2 159	2 155	1 813
Property, plant and equipment	131 068	150 185	154 233	166 371	176 371	171 838
Long-term receivables	222	186	321	954	663	1 261
Other non-current assets	589	514	2 047	1 950	2 020	1 945
<b>Current assets</b>	<b>79 969</b>	<b>74 977</b>	<b>89 864</b>	<b>78 809</b>	<b>99 379</b>	<b>105 650</b>
<i>Annual change (per cent)</i>		-6,2%	19,9%		10,6%	34,1%
Inventories	43 563	36 910	39 830	30 841	39 053	41 812
Receivables	33 249	31 911	45 991	45 238	55 482	55 958
Cash and cash equivalents	3 157	6 156	4 043	2 730	4 844	7 880
<b>Total assets</b>	<b>212 280</b>	<b>227 829</b>	<b>248 835</b>	<b>250 243</b>	<b>280 588</b>	<b>282 507</b>
<b>Equity</b>	<b>85 716</b>	<b>94 786</b>	<b>108 063</b>	<b>111 846</b>	<b>114 267</b>	<b>112 098</b>
<i>Annual change (per cent)</i>		10,6%	14,0%		5,7%	0,2%
<b>Minority interest</b>	<b>14 009</b>	<b>10 935</b>				
<b>Non-current liabilities</b>	<b>52 531</b>	<b>54 865</b>	<b>68 832</b>	<b>68 617</b>	<b>101 993</b>	<b>114 363</b>
Subsidies	0	4 966	7 190	6 137	5 116	4 095
Interest-bearing loans and borrowings	52 531	49 899	61 642	62 480	96 877	110 268
<b>Current liabilities</b>	<b>60 024</b>	<b>67 243</b>	<b>71 940</b>	<b>69 780</b>	<b>64 328</b>	<b>56 046</b>
<i>Annual change (per cent)</i>		12,03%	6,99%		-10,58%	-19,68%
Interest-bearing loans and borrowings	15 994	29 000	32 377	27 127	24 273	11 259
Income tax payable	0	0	2 910	2 988	816	816
Trade and other amounts payable	44 030	38 243	36 653	39 665	39 239	43 971
<b>Total equity and liabilities</b>	<b>212 280</b>	<b>227 829</b>	<b>248 835</b>	<b>250 243</b>	<b>280 588</b>	<b>282 507</b>

Source: Pieno Žvaigždės AB

<b>Income statement, LTL thou</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1H 2005</b>	<b>2005</b>	<b>1H 2006</b>
<b>Revenue</b>	<b>331 650</b>	<b>367 625</b>	<b>397 512</b>	<b>206 534</b>	<b>446 331</b>	<b>248 686</b>
<i>Annual change (per cent)</i>		10,8%	8,1%		12,3%	20,4%
Cost of sales	-278 451	-278 283	-308 174	-167 168	-354 816	-201 854
<i>Annual change (per cent)</i>		-0,1%	10,7%		15,1%	20,7%
Gross profit	53 199	89 342	89 338	39 366	91 515	46 832
<i>Annual change (per cent)</i>		67,9%	0,0%		2,4%	19,0%
Other operating income, net	1 994	2 357	2 968	676	889	623
Sales and administrative expenses	-64 511	-69 666	-78 378	-31 790	-69 311	-36 293
Operating profit before financing costs	-9 318	22 033	13 928	8 252	23 093	11 162
<i>Annual change (per cent)</i>		-336,5%	-36,8%		65,8%	35,3%
Financial income / expenses, net	2 586	-3 072	1 150	-2 169	-4 692	-2 195
Profit before tax	-6 732	18 961	15 078	6 083	18 402	8 967
Corporate income tax	0	-1 895	-1 054	-1 027	-3 107	-1 704
Group profit before minority interest	-6 732	17 066	14 024	5 056	15 295	7 263
Minority interest	1 839	-1 033	0			
<b>Net profit</b>	<b>-4 893</b>	<b>16 033</b>	<b>14 024</b>	<b>5 056</b>	<b>15 295</b>	<b>7 263</b>
<i>Annual change (per cent)</i>		-427,7%	-12,5%		9,1%	43,7%

Source: Pieno Žvaigždės AB

<b>Cash flow statement, LTL thou</b>	<b>2 002</b>	<b>2 003</b>	<b>2 004</b>	<b>1H 2005</b>	<b>2 005</b>	<b>1H 2006</b>
<b>Profit before tax</b>	<b>-6 732</b>	<b>18 961</b>	<b>15 078</b>	<b>6 083</b>	<b>18 401</b>	<b>8 967</b>
Depreciation and amortisation	17 058	21 133	23 949	13 134	29 477	16 179
Other adjustments	-3248	1 705	3 307	2 486	2 282	2 196
Changes in working capital	12705	-4 700	-17 076	13 038	-11 292	846
Paid / received interest, net	-2 676	-3 651	-3 222	-2 486	-3 836	-2 142
Income tax paid	0	0	-1 895	-1 027	-3 246	-1 704
<b>Net cash flow from operating activities</b>	<b>17 107</b>	<b>33 448</b>	<b>20 141</b>	<b>31 228</b>	<b>31 786</b>	<b>24 342</b>
Net investments into property, plant and equipment	-36903	-36 022	-21 073	-19 586	-14 792	-12 196
Net investments into intangible assets	-1809	-509	-702	-269	-617	-130
Acquisition of shares of subsidiary undertaking	-71	-4 564	-11 413	0	0	0
Proceeds on disposal of investments held for sale	-147	0	0	-158	22	75
<b>Net cash flow from investing activities</b>	<b>-38 930</b>	<b>-41 095</b>	<b>-33 188</b>	<b>-20 013</b>	<b>-15 387</b>	<b>-12 251</b>
Net borrowing	22 260	10 669	18 053	-2 772	6 020	2 240
Issue (redemption) of shares	-104	-23	809	0	-1 000	0
Dividends paid	0	0	-5 403	-8 116	-8 115	-9 432
Payment of finance lease liabilities	0	0	-2 525	-1 640	-12 503	-1 863
<b>Net cash flow from financing activities</b>	<b>22 156</b>	<b>10 646</b>	<b>10 934</b>	<b>-12 528</b>	<b>-15 598</b>	<b>-9 055</b>
Increase (decrease) in cash and cash equivalents	333	2 999	-2 113	-1 313	801	3 036
Cash and cash equivalents at 1 January	2824	3 157	6 156	4 043	4 043	4 844
Cash and cash equivalents at 31 December	3 157	6 156	4 043	2 730	4 844	7 880

Source: *Pieno Žvaigždės* AB

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*\*Note: Data in this review is taken from the external sources such as the annual statements of the issuer and other information provided by the issuer, reports of statistics agencies, press releases of news agencies, acts of law, etc. SEB Vilniaus Bankas is of the opinion that this information is reliable, however the Bank does not accept any responsibility for its accuracy, authenticity or completeness. Any opinion, statement and forecast submitted in this review are exclusively the property of SEB Vilniaus Bankas and may be changed without any additional notice.*

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