

AB Invalda

Consolidated Financial
Statements for the year 2005

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Company details

AB Invalda

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Board

Alvydas Banys (Chairman)
Vytautas Bučas
Dailius Juozapas Mišeikis
Darius Šulnis

Management

Darius Šulnis (President)
Zita Vaitkevičienė (Chief Financial Officer)

Auditors

KPMG Baltics, UAB
Vilnius, Lithuania

Banks

AB SEB Vilniaus Bankas
Nordea Bank Finland Plc Lithuanian branch
AB bankas Hansabankas

Annual report

The Board and the Management have today discussed and authorized for issue the consolidated annual accounts and the annual report and have signed the consolidated annual accounts and report on behalf of the Company.

The consolidated accounts 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.

We recommend the consolidated accounts be approved at the Annual General Meeting.

Vilnius, 14 April 2006

Management:

Darius Šulnis
President

Board:

Alvydas Banys
(Chairman)

Vytautas Bučas

Dailius Juozapas Mišeikis

Darius Šulnis



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Report of the auditor to the shareholders of AB Invalda

We have audited the consolidated balance sheet of AB Invalda (the "Company") as at 31 December 2005 and the related consolidated statements of income, changes in shareholders equity and cash flows for the year then ended. The consolidated financial statements, as set out on pages 5 to 53, are the responsibility of the management. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of a number of subsidiaries, included in the consolidated financial statements of AB Invalda group were audited by other independent auditors. The component of the consolidated financial statements audited by the other auditors comprises assets of Litas 170,973 thousand or 26% of total consolidated assets and revenue of Litas 125,351 thousand or 42% of total consolidated revenue. We base our opinion on the above mentioned component of the consolidated financial statements solely on the audit reports of the other auditors, dated February and March 2006, which expressed an unqualified opinions on the financial statements of the subsidiaries, prepared in accordance with Lithuanian Business Accounting Standards or International Financial Reporting Standards as adopted by the European Union.

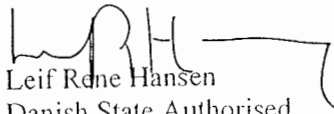
(i) All buildings of AB Invalda group are accounted at cost less depreciation and impairment losses, except of buildings in AB Vilniaus Baldai and UAB Aikstentis, where the revaluation model is used, and the buildings are revalued to fair values determined by appraisals undertaken by professionally qualified valuers. Had all the buildings of the group been valued at cost less depreciation, the book value of buildings in consolidated accounts would be lower by Litas 13,691 thousand as at 31 December 2005.

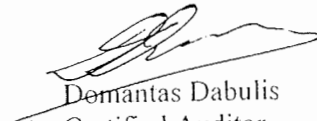
In our opinion, except for the effect of the matter referred to in paragraph (i) above, the consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



In accordance with the Lithuanian legislation, a report on the Company's activities is presented separately from the financial statements. It is our additional responsibility to report concerning the consistency of the report on the Company's activities with the audited financial statements. We reviewed the report on the Company's activities for the year 2005 and issued a separate review report dated 14 April 2006 in which we state that no inconsistencies with the financial statements came to our attention.

Vilnius, 14 April 2006
KPMG Baltics, UAB


Leif Rene Hansen
Danish State Authorised
Public Accountant


Domantas Dabulis
Certified Auditor

Consolidated profit and loss account for the year ended 31 December 2005

	Note	2005	2004
		Litas	Litas
Revenue	3	295,686,078	205,129,682
Cost of sales		-215,763,881	-146,520,683
Gross profit		79,922,197	58,608,999
Distribution expenses	5	-11,122,087	-3,310,390
Administrative expenses	6	-40,582,643	-25,262,919
Other operating income	7	6,090,631	3,632,396
Other operating expense	7	-5,616,633	-2,727,704
Operating profit before financing activities		28,691,465	30,940,382
Financial income	8	25,650,234	5,379,936
Financial expenses	8	-10,154,447	-4,731,003
Net financing income		15,495,787	648,933
Share of profit of associates		112,253	1,630,153
Profit before tax		44,299,505	33,219,468
Income tax expense	9	-5,177,546	-5,122,367
Profit for the year		39,121,959	28,097,101
Attributable to:			
Equity holders of the parent		20,325,664	20,706,770
Minority interest		18,796,295	7,390,331
Profit for the year		39,121,959	28,097,101
Basic earnings per share	21	0.50	0.54

The notes set out in pages 10 to 53 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2005

	Note	31 12 2005	31 12 2004
		<u>Litas</u>	<u>Litas</u>
ASSETS			
Non-current assets			
Property, plant and equipment	10	220,267,811	133,913,174
Intangible assets	11	31,984,300	6,055,813
Investment property	12	75,964,114	26,578,524
Investments in associates	13	51,886,455	14,195,562
Other non-current investments	14	38,601,856	1,098,385
Non-current receivables	15	905,512	932,057
Deferred tax assets	9	10,399,699	1,297,245
Total non-current assets		<u>430,009,747</u>	<u>184,070,760</u>
Current assets			
Inventories	16	32,091,567	16,541,119
Assets held for sale	17	26,963,294	4,686,389
Other current investments	18	32,277,776	37,089,936
Income tax prepaid		1,949,677	0
Trade and other receivables	19	93,025,937	48,716,348
Cash and cash equivalents		32,749,046	9,547,269
Total current assets		<u>219,057,297</u>	<u>116,581,061</u>
TOTAL ASSETS		<u><u>649,067,044</u></u>	<u><u>300,651,821</u></u>

The notes set out in pages 10 to 53 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2005

	Note	31 12 2005	31 12 2004
		Litas	Litas
EQUITY AND LIABILITIES			
Equity	20		
Share capital		41,734,662	40,417,339
Share premium		19,446,244	4,033,565
Reserves		26,644,760	18,095,222
Retained earnings		45,467,022	39,063,559
Total equity attributable to equity holders of the parent		<u>133,292,688</u>	<u>101,609,685</u>
Minority interest		<u>67,921,194</u>	<u>33,517,604</u>
Total equity		<u>201,213,882</u>	<u>135,127,289</u>
Non current liabilities			
Interest-bearing loans and borrowings	23	189,061,755	73,434,192
Long-term advances received		1,498,647	1,001,230
Deferred grant income	24	1,415,424	3,670
Deferred tax liability		4,078,924	2,260,979
Total non-current liabilities		<u>196,054,750</u>	<u>76,700,071</u>
Current liabilities			
Interest bearing loans and borrowings	23	149,280,208	21,306,755
Trade payables		49,653,002	46,453,257
Advances received		4,437,754	5,673,256
Income tax payable		9,787,938	5,225,027
Other payables	22	38,639,510	10,166,166
Total current liabilities		<u>251,798,412</u>	<u>88,824,461</u>
Total liabilities		<u>447,853,162</u>	<u>165,524,532</u>
TOTAL EQUITY AND LIABILITIES		<u>649,067,044</u>	<u>300,651,821</u>

The notes set out in pages 10 to 53 form an integral part of these financial statements.

Statement of changes in shareholders' equity

Litas	Share capital	Share premium	Fair value reserve	Legal reserve	Other reserves	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Capital and reserves at 1 January 2004	38,000,000	4,033,565	13,514,561	2,429,316	1,764,413	0	10,038,055	69,779,910	n/a	n/a
Effect of change in accounting policies										
Allocation of reserves				591,155	-570,443		10,239,446	10,239,446		
Dividend for 2003							-20,712	0		
Share issue	2,417,339						-1,900,000	-1,900,000		
Change in fair value reserve			370,105			-3,886		366,219		
Total recognised income and expense for 2004							20,706,770	20,706,770		
Capital and reserves at 31 December 2004	40,417,339	4,033,565	13,884,666	3,020,471	1,193,970	-3,886	39,063,559	101,609,684	33,517,603	135,127,287
IFRS adjustments to opening balance										
Dividend for 2004							-6,062,601	-6,062,601		-6,062,601
Minority of subsidiaries acquired									15,843,296	15,843,296
Change in translation reserve			79,806			610,132		689,938	-236,000	453,938
Total recognised income and expense for 2005							20,325,664	20,325,664	18,796,295	39,121,959
Share issue	1,317,323	15,412,679						16,730,002		16,730,002
Capital and reserves at 31 December 2005	41,734,662	19,446,244	13,964,472	3,020,471	1,193,970	606,246	53,326,622	133,292,687	67,921,194	201,213,881

The notes set out in pages 10 to 53 form an integral part of these financial statements.

Consolidated cash flow statement

Litas	2005	2004
Profit before taxation	44,299,505	33,219,468
Adjustments for:		
Depreciation and amortization	22,460,938	9,647,819
Loss on disposals of non current assets	-1,667,183	-308,575
Impairment of receivables	140,576	280,695
Financial income	-25,650,234	-5,379,936
Financial expense	10,154,447	4,731,003
Result from associates	-112,253	-1,630,153
Net cash inflow from ordinary activities before any change in working capital	49,625,796	40,560,321
Change in trade and other receivables	9,979,622	-23,540,388
Change in inventories	9,661,076	2,440,992
Change in trade creditors and other creditors	-9,992,847	18,279,531
Corporate income tax paid	-10,128,758	-5,310,509
Net cash inflow from operating activities	49,144,889	32,429,947
Acquisition of property, plant and equipment	-128,157,210	-72,950,218
Capitalization of intangible fixed assets	-1,409,337	0
Proceeds from disposal of property, plant and equipment	31,685,054	336,615
Acquisition of subsidiaries, net of cash acquired	-86,475,052	-8,672,849
Acquisition of associates and other investments	-114,140,903	-7,417,116
Proceeds from liquidation of subsidiaries	12,213,993	0
Proceeds from sale of investments	50,986,809	1,750,570
Dividend received	166,143	1,937,378
Net cash outflow from investing activities	-235,130,503	-85,015,620
Dividends paid	-6,062,601	-1,749,570
Proceeds from issuance of share capital	16,730,002	0
Proceeds from borrowings, net of repayment	205,549,601	55,775,783
Interest paid	-7,029,611	-3,875,983
Net cash inflow/(outflow) from financing, net	209,187,391	50,150,230
Net cash inflow/outflow from operating activities, investing activities and financing	23,201,777	-2,435,443
Cash and cash equivalents at 1 January	9,547,269	11,982,712
Cash and cash equivalents at 31 December	32,749,046	9,547,269

The notes set out in pages 10 to 53 form an integral part of these financial statements.

Notes

1 Significant accounting policies

The joint stock company AB Invalda (the Company) is domiciled in Vilnius, Lithuania. The Company's shares are listed in the Current List on the National Stock Exchange of Lithuania.

The core business of AB Invalda is the investment and reinvestment in securities. At the end of year 2005 the Invalda Group consisted of 51 companies, represented in different business sectors: investments into real estate, financial broker services, production of furniture, medicine, hotel services etc.

List of significant subsidiaries is provided in Note 27, and the associates are specified in Note 13.

As at 31 December 2005 the major shareholders were as follows:

Name and address	Number of shares	Shareholding %
UAB Nenuorama	9,488,043	22.73
Dailius Juozapas Mišeikis	6,792,556	16.28
Vytautas Bučas	5,882,003	14.09
Alvydas Banys	5,324,493	12.76
Darius Šulnis	1,317,323	3.16
Others	12,930,244	30.98
Total	41,734,662	100

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

The financial statements were authorised for issue and signed by Management on behalf of the Company on 14 April 2006.

The financial statements for 2005 have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB. Therefore, the comparative information presented in these financial statements for the year ended 31 December 2004 has been restated accordingly. For more details, refer to Note 30)

Basis of preparation

The financial statements are presented in Litas. They are prepared on the historical cost basis except that financial assets available-for-sale are stated at fair value. Non current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases or until the associate is reclassified as held for sale.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. If an associate is reclassified as held for sale, equity accounting is stopped and the associate is carried at the lower of the carrying amount and the fair value less cost to sell.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

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 the functional currency 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 the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currency of the Group is Litas, except for Hoechst Biotika, the functional currency of which is the Slovak crown, and Latvian companies, the functional currency of which is the Latvian lat.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Litas at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Litas at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

Derivative financial instruments

The Group does not have derivative financial instruments.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. At recognition of replacing part or major overhaul, carrying amount of parts replaced or previous major overhaul are derecognised. 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. Land and construction in progress are not depreciated. The estimated useful lives are as follows:

The estimated useful lives are as follows:

- | | |
|-------------------------------|---------------|
| • Buildings and constructions | 15 - 40 years |
| • Machinery and equipment | 5 - 10 years |
| • Vehicles | 5 - 10 years |
| • Other assets | 3 - 10 years |

Residual values, depreciation methods and useful lives are reassessed annually.

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

The excess of the Group's interest in the net fair value of an acquired company's identifiable assets, liabilities and contingent liabilities over cost arising on an acquisition is recognised directly in profit or loss.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as 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 unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software - 3-4 years
- Registration of medicines and trade marks - 2-5 years.

Investment property

Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both. Investment property is accounted for using the cost model, i.e. investment property is stated at purchase price, less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives. The estimated useful lives for investment properties are 15-40 years.

Depreciation methods, useful lives and residual values are reassessed annually.

Property that is being constructed or developed for future use as investment property is stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Financial instruments

Investments in equity securities

Investments in equity securities held by the Group are classified as being available-for-sale and are initially recognized at fair value plus direct cost. Subsequently, the investments are re-measured to their fair value with any resultant gain or loss being recognised directly in equity, except for impairment losses. They are included in non current assets unless management intends to dispose of the investments within 12 months of the balance sheet date. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised / derecognised by the Group on the date it commits to purchase / sell the investments.

Other financial instruments

Loans and receivables are non derivative financial assets or derterminable payments that are not quoted 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 recongised 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 produced and/or held for sale sold in the ordinary course of business 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. Other inventories are stated at the lower of cost and fair value less cost to sell.

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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, 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 assets that have an indefinite useful life 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.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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 Group'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.

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.

An impairment loss in respect 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.

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 also continuing management involvement with the goods.

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 Group will comply with the conditions attaching to it. Grants that compensate the Group 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. Grants that compensate the Group 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 financing costs

Net financing 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.

Income tax

Income tax on the profit or loss for the year 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 goodwill or 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 realised.

Additional income 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 Group 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.

Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Group.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group has not classified any instruments as at fair value through profit and loss.

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Group.

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Group's operations. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

2 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group 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.

Classification of assets held for sale

The Group classified part of real estate as held for sale based on its intentions to sell the property within the next twelve months and active marketing of the property for sale. The fair value of real estate held for sale which is to be disclosed in the financial statements in accordance with the requirements of IFRS 5 was estimated based on independent appraisals of the property performed by the end of 2005.

Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Judgments

During 2005, the Group acquired controlling interest in a subsidiary Hoechst Biotika s.r.o., Slovakia. The fair value of the net assets at acquisition was estimated as follows:

-fair value of land and buildings was estimated based on independent appraisal as at the date of acquisition using comparative values method;

- fair value of plant and equipment was estimated using a depreciated replacement cost method by an independent appraisal, since there was no reliable market-based evidence of market value because of the specialised nature of plant and equipment;

-fair value of inventories was estimated based on existing agreements with the sellers of the shares to acquire the inventories at a price equal to their cost;

-fair value of monetary items was estimated based on the present value of expected cash flows.

No additional intangible assets or contingent liabilities were recognised as a result of the business combination, taking into consideration that all product licenses, trade marks, major sales and supply contracts of the subsidiary in force before the acquisition were cancelled or removed from disposition of the company as part of the transaction.

During 2005, the Group also acquired controlling interest in a subsidiary AB Sanitas and UAB Apželdinimas. The goodwill arising on acquisitions was calculated based on the book values of net assets acquired, considering that the difference between book values and the fair values of net assets is not material.

The Group has recognized deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits are probable.

3 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments.

Segment information is presented in respect of the Group's business segments as a primary reporting format. The group is engaged in investment in real estate, financial broker activities, production of medicines and furniture.

Segment information is presented in respect of the Group's geographical segments by location of customers as a secondary reporting format. The Group's sales are performed mainly in Lithuania, Germany, Great Britain and Latvia.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire tangible and intangible segment assets that are expected to be used for more than one period.

Segment information by business segments for the year ended 31 December 2005 is as follows:

Litas	Real estate	Furniture production	Medicine production	Financial mediation	Not allocated	Total
Revenue	65,104,098	120,116,859	62,987,513	12,713,238	34,764,370	295,686,078
Segment gross profit	27,577,787	12,897,803	16,443,815	10,767,752	12,235,040	79,922,197
Operating expenses, net	16,616,284	7,645,266	11,439,234	8,127,947	7,402,001	51,230,732
Operating profit before financing costs	10,961,503	5,252,537	5,004,581	2,639,805	4,833,039	28,691,465
Financing income					15,495,787	15,495,787
Profit share of associated companies					112,253	112,253
Profit before tax	10,961,503	5,252,537	5,004,581	2,639,805	20,441,079	44,299,505
Income tax					-5,177,546	-5,177,546
Net profit	10,961,503	5,252,537	5,004,581	2,639,805	15,263,533	39,121,959
Segment assets	141,274,542	125,062,684	146,503,640	184,123,268	52,102,910	649,067,044
Segment liabilities	153,162,386	77,484,039	74,853,998	114,211,808	28,140,931	447,853,162
Capital expenditure	98,400,701	7,070,802	46,487,532	460,811	2,360,810	154,780,656
Depreciation and amortisation	3,705,895	563,291	7,026,507	411,978	2,704,243	14,411,914

Segment information by geographical segments for the year ended 31 December 2005 is as follows:

Litas	Germany	Great Britain	Latvia	France	USA	Slovakia	Lithuania	Other	Total
Revenue	42,105,360	25,183,973	21,463,212	13,130,322	12,756,279	6,948,254	163,777,360	10,321,318	295,686,078
Total assets by location of assets			826,368			53,655,862	592,972,029	1,612,785	649,067,044
Capital expenditures						1,280,448	153,500,208		154,780,656

4 Acquisition of subsidiaries

(a) On 27 July 2005, the Group acquired (through AB Sanitas) all the shares of Hoechst-Biotika s.r.o., pharmacy production company domiciled in Martin, Slovakia. The company manufactures and distributes medicines, mainly injection preparations, tablets and ointments. The consideration paid for the shares amounted to Litas 43,984 thousand and was satisfied in cash. Consideration paid includes legal fees amounting to Litas 135 thousand.

In the five months to 31 December 2005 the subsidiary contributed net profit of Litas 36 thousand to the consolidated net profit for the year.

The acquisition had the following effect on the Group's assets and liabilities:

Acquiree's net assets at the acquisition date

	Fair values recognised
In Litas	
Land and buildings	23,589,438
Plant and equipment	12,355,096
Intangible assets	109,006
Deferred tax asset	550,430
Inventories	17,623,282
Trade and other receivables	25,300,235
Cash acquired	957,412
Suppliers and other creditors	-20,735,110
Current financial liabilities	-11,765,592
Net assets acquired	47,984,197
Excess of subsidiary's net assets acquired over the cost of acquisition	-3,999,237
Consideration paid satisfied in cash	43,984,960
Cash acquired	-957,412
Net cash outflow	43,027,548

The former owner of Hoechst-Biotika s.r.o. sold its shares as part of the group reorganization, refusing excess production capacity in the region. It was also in the seller's interest to ensure that the work force continued to be employed. As a result the seller was willing to accept a price below the fair value of the net assets. In addition, the former owner cancelled all product licenses and rights to trade marks, major sales and supply contracts in force before the acquisition. Consequently, sales and supply contracts had to be renegotiated and new medicines to be produced would need to be registered in Slovakia. As a result, a loss is budgeted for the year 2006, and it is expected that the break even will be reached in 2007.

(b) In May 2004, AB Sanitas acquired 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations.

4 Acquisition of subsidiaries (continued)

From May 2004, after accession to EU the new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by the company in 2004 and, consequently, the company was not longer able to produce medicines, and AB Sanitas was able to acquire the assets at a value below their market value. During 2004 and 2005 the company began a process of selling off its assets and realized significant gains from the sale of real estate. In 2005, AB Sanitas increased its holding up to 67% of the shares acquiring control over the company. On 15 April 2005 AB Endokrininiai Preparatai officially entered into liquidation. The liquidation was finished by the end of 2005, when corresponding distribution to shareholders was paid out, and only formalities of cancellation of the registration were left.

Acquiree's net assets at the date of acquiring control

In Litas	Fair values
Property, plant and equipment	179,072
Inventories	49,797
Trade and other receivables	18,318,040
Cash acquired	708,152
Suppliers and other creditors	-561,664
Total net assets	<u>18,693,397</u>
Net assets attributable to 67% interest acquired	12,524,576
Excess of subsidiary's net assets acquired over the cost of acquisition	<u>4,625,635</u>
Consideration paid satisfied in cash	7,898,941
Cash acquired	-708,152
Net cash outflow	<u><u>7,190,789</u></u>

During the period from acquisition of the controlling interest by AB Sanitas until the final settlement with shareholders on liquidation, the subsidiary incurred expenses of Litas 311 thousand and the result for the period comprised a loss of Litas 311 thousand.

The effect of consolidation of the associate in 2004 and the subsidiary in 2005 was considered to be not material for the consolidated financial statements of the Group, consequently, the value of the investment was not restated to its equity value in 2004 and no consolidation was made in 2005. Instead, the investment was stated at cost.

4 Acquisition of subsidiaries (continued)

The effect of the acquisition and disposal of the subsidiary on the consolidated financial statements is as follows:

	Litas
Share of distribution to shareholders received on liquidation in 2005	12,213,993
Cost of acquired shares in 2004 (40% of total shares)	-4,741,835
Cost of acquired shares in 2005 (27% of total shares)	-3,157,106
Total cost of investment	-7,898,941
Gain recognized in the income statement for 2005	4,315,052

(c) In July 2005, AB Invalda increased its shareholding in AB Sanitas from 30.47% to 31.48% by subscribing for additional 146,964 shares from the new share issue. Total nominal value of additional shares amounted to Litas 734,820, and cash contribution equaled Litas 7,513,682.

In November 2005, AB Invalda increased its shareholding in AB Sanitas further from 31.48% to 39.21% by acquisition of additional 170,000 shares (total nominal value of Litas 850,000) from minority shareholders for Litas 11,900,000, satisfied in cash.

The acquisition had the following effect on the Group's assets and liabilities:

Acquiree's net assets at the acquisition date

	Book values *)
In Litas	
Total net assets of AB Sanitas	48,150,309
% of net assets acquired	7.73%
Net assets acquired	3,722,019
Goodwill on acquisition	8,177,981
Consideration paid satisfied in cash	11,900,000
Cash acquired	0
Net cash outflow	11,900,000

*) According to the management judgment, the difference between the book values and recognized fair values of net assets is not material.

After increase of shareholding in 2005, the Invalda Group together with the related parties own the majority interest in AB Sanitas and has effective control over the financial and operating policies of the company. Therefore, the financial statements of AB Sanitas for 2005 was consolidated in the Invalda Group annual accounts for 2005.

4 Acquisition of subsidiaries (continued)

(d) On 17 June 2005, the Group acquired all the shares UAB Apželdinimas domiciled in Kaunas, Lithuania. The company is engaged in landscape planning, however, business activities currently are insignificant. This acquisition is considered by the Invalda Group as an investment into real estate to be developed in Kaunas, Antakalnio 40, subject to obtaining a construction permission from the Kaunas city municipality. According to a share sale-purchase agreement, the seller of the shares (Investment Amber Holding S.A., domiciled in Luxembourg) is obliged to obtain a permission from the municipality until 1 July 2006 for development of residential and commercial real estate in a 10 hectare area in Kaunas, Antakalnio 40. If the permission is not obtained by 1 July 2006, the seller has a contractual right to cancel the share-purchase agreement and require refund of the consideration paid for the shares.

In five months to 31 December 2005 the subsidiary contributed a net loss of Litas 19 thousand to the consolidated net profit for the year.

The acquisition had the following effect on the Group's assets and liabilities:

Acquiree's net assets at the acquisition date

In Litas	<u>Book values *)</u>
Land and buildings	757,190
Plant and equipment	37,332
Inventories	6,632
Trade and other receivables	28,129
Cash acquired	5,953
Suppliers and other creditors	<u>-377,794</u>
Net assets acquired	457,442
Goodwill on acquisition	<u>16,542,558</u>
Consideration paid satisfied in cash	17,000,000
Cash acquired	<u>-5,953</u>
Net cash outflow	<u><u>16,536,605</u></u>

*) According to the management judgment, the difference between the book values and recognized fair values of net assets is not material.

	2005	2004
	Litas	Litas
5 Distribution expenses		
Advertising	2,565,837	715,693
Salaries and social insurance	2,195,866	562,101
Depreciation and amortization	1,996,565	685,215
Repair of premises	1,199,994	436,131
Marketing	882,526	278,945
Transportation expenses	464,224	147,221
Commissions	79,371	286,425
Other	1,737,704	198,659
	11,122,087	3,310,390
 6 Administrative expenses		
Salaries and social insurance	15,826,854	9,634,577
Depreciation and amortization	5,911,742	2,996,441
Real estate tax	1,016,968	273,746
Other taxes (road, land, etc.)	973,603	685,183
Professional services	1,694,505	1,567,200
Small value inventory and current assets written off	1,643,303	1,229,140
Utilities	1,226,648	1,088,759
Repair of premises	1,109,101	1,045,987
Security services	501,653	291,153
Business trips	470,471	259,111
Vehicles maintenance costs	424,491	248,512
Communication services	394,347	321,262
Insurance	368,903	256,787
Other	9,020,054	5,365,061
	40,582,643	25,262,919

	2005	2004
	Litas	Litas
7 Other operating income		
Rent and services	1,948,552	1,572,525
Proceeds from sales of non-current assets	1,785,694	336,615
Proceeds from sales of materials, spare parts	345,173	274,382
Reversal of impairment of receivables and prepayments	225,746	0
Other	1,785,466	1,448,874
Total other operating income	<u>6,090,631</u>	<u>3,632,396</u>
Other operating expenses		
Cost of services rendered	1,485,523	379,354
Cost of non-current assets sold	118,511	28,040
Cost of current assets sold	261,305	255,342
Impairment of receivables	366,322	280,695
Other	3,384,972	1,784,273
Total other operating expenses	<u>5,616,633</u>	<u>2,727,704</u>
Other operating items, net	<u>473,998</u>	<u>904,692</u>
8 Financial income		
Realised gain on securities available for sale	4,063,920	0
Profit from securities held for trading	5,009,957	2,981,504
Gain on sale of shares in AMMO SIA	3,719,925	0
Gain on sale of shares in Vilmakas	1,322,427	0
Dividends	166,143	1,937,378
Foreign exchange gain	939,621	59,336
Gain on liquidation of AB Endokrininiai Preparatai (subsidiary of AB Sanitas)	4,315,052	0
Excess of subsidiary's net assets acquired over the costs of acquisition (in AB Sanitas)	3,999,237	0
Other	2,113,952	401,718
	<u>25,650,234</u>	<u>5,379,936</u>
Financial expenses		
Interest on borrowings	7,029,611	3,875,983
Costs from securities activities	2,048,626	220,272
Foreign exchange loss	806,593	93,044
Provision for doubtful debts	17,005	265,569
Other	252,612	276,135
	<u>10,154,447</u>	<u>4,731,003</u>

Gain of Litas 4,315,052 on liquidation of AB Endokrininiai Preparatai (subsidiary of AB Sanitas) is described in Note 4 (b). Excess of subsidiary's net assets acquired over the costs of acquisition (in AB Sanitas) of Litas 3,999,237 is described in Note 4 (a).

	2005	2004
	Litas	Litas
9 Income tax recognized in the income statement		
Current tax expense		
Current year	11,485,622	6,239,443
Adjustments for prior years	81,313	-34,487
	11,566,935	6,204,956
Deferred income tax		
Current year	-6,389,389	-1,082,589
Total income tax expense recognized in the income statement	5,177,546	5,122,367

The reconciliation of effective tax rate is as follows:

	2005	
Litas		
Result before tax		44,299,505
Income tax using effective tax rate	15.0%	6,644,926
Excess of subsidiary's net assets acquired over the cost of acquisition	-1.5%	-665,736
Delays and fines received	-0.2%	-77,001
Write down of inventories	0.1%	55,282
Write down of financial assets	0.2%	81,300
Impairment of receivables	0.0%	17,302
Disposal of tangible fixed assets	0.1%	42,868
Non deductible VAT	0.0%	11,924
Non deductible depreciation	0.5%	214,749
Interest expenses	0.1%	43,071
Support, gifts and allowances	0.1%	21,631
Tantiemes	0.1%	27,000
Other non deductible expense	0.6%	280,362
Change in accruals	0.1%	64,182
Effect of earlier unrecognised tax benefit on tax loss carried forward	-0.1%	-37,077
Dividends income	-0.1%	-49,072
Income from sale of securities	-0.5%	-231,807
Effect of increase in corporate income tax rate on deferred tax asset to 19%	-2.8%	-1,221,088
Effect of tax rates in foreign jurisdictions	0.1%	22,502
Under / over provided in prior years	-0.2%	-67,772
	11.7%	5,177,546

The movements on the deferred tax asset are as follows:

Litas	2005
Deductible temporary differences:	
Difference between the tax base and carrying amount of intercompany gain on non-current assets sale	40,807,591
Deductible temporary differences on non-current assets	8,511,411
Fair value adjustment of available for sale investments	3,755,896
Difference between the tax base and carrying amount of receivables and inventories	1,649,100
Difference between the tax base and carrying amount of intercompany gain of sale of Minija shares	1,163,273
Difference between the tax base and carrying amount of interest costs capitalised on construction in progress	519,000
Difference between the tax base and carrying amount of accrued expenses	412,501
Total deductible temporary differences	56,818,773
Loss carried forward	2,447,181
Basis for calculation of the deferred tax	59,265,954
Deferred tax (15-19%) as at 31 December 2005	10,399,699

The movements on the deferred tax liability are as follows:

Litas	2005
Deductible temporary differences:	
Difference between the tax base and carrying amount of buildings revaluation	13,860,233
Non deductible depreciation due to tax relief applied on investments into non-current tangible assets	9,994,933
Difference between the tax base and carrying amount of investment property revaluation	2,509,150
Other	607,593
Basis for calculation of the deferred tax	26,971,909
Deferred tax (15-19%) as at 31 December	4,078,924

According to the amended tax legislation in Lithuania, during the period from 1 January 2006 to 31 December 2007, companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred tax as at 31 December 2005 was calculated using the effective rates of 19% and 18% for the temporary differences that will reverse in 2006 and 2007, respectively.

10 Property, plant and equipment

Litas	Land	Buildings	Machinery and equipment	Vehicles & other assets	Constructi on in progress	Total
Net book value at 31 12 2004	2,507,619	116,416,093	32,995,944	8,071,234	5,187,198	165,178,088
Transfer to non – current assets held for sale	-140,419	-4,545,971				-4,686,390
Transfer to investment property		-26,578,524				-26,578,524
Net book value at 31 12 2004	2,367,200	85,291,598	32,995,944	8,071,234	5,187,198	133,913,174
Cost as at 01 01 2005	2,367,200	98,407,104	50,227,974	14,164,124	5,187,198	170,353,600
Additions	7,561,810	44,266,228	38,264,764	9,059,047	53,851,974	153,003,823
Increase (decrease) in value		4,141,675		-6,361		4,135,314
Disposals	-160,000	-33,821,976	-3,026,464	-1,787,811	-2,559,389	-41,355,640
Transfer from one heading to another	27,584	21,649,934	1,047,655	-2,575,826	-20,149,347	0
Reclassified to assets held for sale		-20,676,905				-20,676,905
Cost as at 31 December 2005	9,796,594	113,966,060	86,513,929	18,853,173	36,330,436	265,460,192
Depreciation as at 01 01 2005	0	13,115,506	17,232,030	6,092,890	0	36,440,426
Depreciation during year	0	6,344,263	11,203,434	3,673,393	0	21,221,090
Written -back		-423,961	-126,520	-14,312		-564,793
Disposals	0	-7,571,116	-2,922,997	-1,410,229	0	-11,904,342
Transfer from one heading to another	0	-15,913	-6,000	6,000	15,913	0
Depreciation as at 31 12 2005	0	11,448,779	25,379,947	8,347,742	15,913	45,192,381
Net book value at 31 December 2005	9,796,594	102,517,281	61,133,982	10,505,431	36,314,523	220,267,811

Pledges

As at 31 December 2005, buildings and equipment with a carrying amount of Litas 163,333 thousand are pledged for the bank loans (refer to note 23).

Assets purchase commitments

On 28 December 2005, sales-purchase agreements regarding acquisition of real estate and land were signed by AB Invaldos Nekilnojamojo Turto Fondas with UAB Lintel. The total amount of the transactions is Litas 72,200 thousand, however, according to the terms of the agreements, ownership of part of the real estate (with a value of Litas 59,466 thousand) will be transferred to AB Invaldos Nekilnojamojo Turto Fondas only on 30 June 2006. Payments for the real estate will be performed in three installments: Litas 5,947 thousand on 15 January 2006, Litas 45,630 thousand on 15 July 2006, Litas 7,889 thousand on 15 September 2006. The acquisition of real estate is financed by a loan from Nordea Bank Finland Plc Lithuania branch.

11 Intangible fixed assets

	Goodwill	Licenses	Software, etc.	Total
Net book value at 31 December 2004	5,279,963	0	775,850	6,055,813
Acquisition value as at 1 January 2005	5,279,963	0	2,044,613	7,324,576
Additions during the period	24,869,269	198,794	1,578,039	26,646,102
Disposals		-73,021	-112,435	-185,456
Foreign exchange difference	0	0	15,901	15,901
Acquisition value as at 31 December 2005	30,149,232	125,773	3,526,118	33,801,123
Amortisation as at 1 January 2005	0	0	1,268,763	1,268,763
Amortisation for the period	0	89,990	608,711	698,701
Amortization of disposed assets	0	-73,008	-78,192	-151,200
Foreign exchange difference	0	0	559	559
Amortisation as at 31 December 2005	0	16,982	1,799,841	1,816,823
Net book value at 31 December 2005	30,149,232	108,791	1,726,277	31,984,300

In connection to transition to IFRS, the adjustments to opening balance was made, whereby the negative goodwill from prior years was derecognized and recorded directly to retained earnings. The amortisation of goodwill was reversed as well.

12 Investment property

Litas	Investment property
Costs as at 1 January 2005	29,174,810
Additions	50,201,868
Disposals	(626,659)
Transfer	821,979
Costs as at 31 December 2005	<u>79,571,998</u>
Depreciation as at 1 January 2005	2,596,286
Depreciation during the year	1,071,684
Disposals	(60,086)
Depreciation as at 31 December 2005	<u>3,607,884</u>
Net book value as at 31 December 2005	<u><u>75,964,114</u></u>
Net book value as at 1 January 2005	<u><u>26,578,524</u></u>

Fair value of investment property

Litas	Net book value 31 Dec 2005	Fair value *) 31 Dec 2005	Excess of fair value over book value
Assets assessed by independent valuers	74,545,820	159,249,943	84,704,123
Assets not independently assessed	1,418,294	N/A	N/A
Total value as at 31 December 2005	<u>75,964,114</u>	<u>159,249,943</u>	<u>84,704,123</u>

*) Investment property fair value has been established by registered independent appraisers having appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Major part of fair values were determined using income capitalisation method.

Major part of investment property comprises a number of commercial properties in Vilnius city, that are leased to third parties.

Difference between the fair value and the net book value, amounting to LTL 84,704 thousand, has not been adjusted by the deferred tax liability, which, applying a rate of 15%, would amount to LTL 12,706 thousand.

13 Investments in associates	Country	Ownership %	
		2005	2004
Umega AB	Lithuania	21.34	47.99
Kelesta UAB	Lithuania	50.00	-
Girių bizonas UAB	Lithuania	16.68	-
Panevėžio melioracija UAB	Lithuania	26.09	26.09
AMMO Nerija UAB	Lithuania	50.00	-
VIPC Klaipėda UAB	Lithuania	42.00	-
Agrovaldymo grupė UAB	Lithuania	25.00	-
Sanitas AB	Lithuania	subsidiary	30.47
Amber Viking Capital	Ukraine	50.00	-
AMMO SIA	Latvia	50.00	-
Gravity SIA	Latvia	49.00	-
Industrial and logistics centre Lapegles SIA	Latvia	50.00	-

The Group's share of post-acquisition total recognized profit or loss in the above associates for the year ended 31 December 2005 was Litai 112 thousand (2004: Litai 1,630 thousand).

In 2005 the Group increased its shareholding in AB Sanitas to 39.21%, and together with the related parties exercises control over the company, therefore, annual financial statements of AB Sanitas were consolidated in the year 2005.

Summary financial information on associates – 100 per cent:

Litais	Assets	Liabilities	Equity	Revenues	Profit/(loss)
2005					
Girių bizonas UAB	139,741,695	79,492,649	60,249,046	84,248,548	406,122
Kelesta UAB	97,618,130	77,919,596	19,698,534	0	-301,706
Agrovaldymo grupė UAB	60,542,704	45,286,331	15,256,373	23,025,107	5,334,760
Umega AB	9,150,488	6,161,826	2,988,662	19,704,990	588,276
VIPC Klaipėda UAB	7,625,758	8,664,013	-1,038,255	321,273	-1,050,158
Panevėžio melioracija UAB	7,055,699	708,542	6,347,157	11,022,208	1,234,537
AMMO Nerija UAB	4,018,648	4,010,376	8,272	0	-1,728
Amber Viking Capital	20,142	0	20,142	42,708	519
AMMO SIA	14,891,893	13,718,045	1,173,848	8,153	-65,277
Gravity SIA	1,751,543	1,897,661	-146,118	0	-170,900
Industrial and logistics centre Lapegles SIA	54,359,774	48,869,875	5,489,899	0	-1,944,851
	<u>396,776,474</u>	<u>286,728,914</u>	<u>110,047,560</u>	<u>138,372,987</u>	<u>4,029,594</u>
2004					
Umega AB	3,670,994	1,917,976	1,753,018	0	218,265
Panevėžio melioracija UAB	5,479,730	228,542	5,251,188	7,923,656	603,466
Sanitas AB	53,758,401	28,579,512	25,178,889	43,001,912	4,602,359
	<u>62,909,125</u>	<u>30,726,030</u>	<u>32,183,095</u>	<u>50,925,568</u>	<u>5,424,090</u>

	2005	2004
	Litas	Litas
14 Other non-current investments		
Jelfa shares (8.38% shares)	38,503,285	0
Other equity securities	22,000	1,057,040
Government securities	14,618	21,927
Other	61,953	19,418
	38,601,856	1,098,385

AB Sanitas participates in a privatization tender of a pharmaceutical company Jelfa, domiciled in Poland. The Company, while planning to acquire control over Jelfa, during October – December 2005 acquired 569,875 shares or 8.38% on the Warsaw Stock Exchange.

At initial recognition, the investment in the shares was stated at fair value of Litas 40,292,842 plus direct costs of Litas 1,966,336 (comprising of brokerage commissions and success fees).

The investment was re-measured to fair value using the average transaction price as per the Warsaw Stock Exchange as at 31 December 2005. The quoted price was of PLN 75.40 or Litas 67.57 per share.

The effect of the re-measurement of the investments to their fair value as at 31 December 2005 was as follows:

	Litas
Investment in Jelfa, Poland	
Acquired 569,875 shares of Jelfa (8.38%)	40,292,845
Direct costs	1,966,336
Value of the investment at initial recognition	42,259,181
Adjustment at subsequent re-measurement to the market value of the shares	-3,755,896
Carrying amount of the shares as at 31 December 2005	38,503,285

The loss on subsequent re-measurement of Litas 3,042,276 after deduction of deferred tax income of Litas 713,620 was recognized in the equity.

On 27 February 2006, an official offer was placed in the Warsaw Stock Exchange for acquisition of 90.01% of shares at a price of PLN 93 PLN (approximately equivalent to Litas 85). The official offer matured on 6 April 2006. In 2006, AB Sanitas acquired additionally 5,860,310 shares and increased its shareholding held in Jelfa up to 94.56%.

	2005	2004
	Litas	Litas
15 Non-current receivables		
Non-current receivables from associates	841,821	922,640
Other	63,691	9,417
	905,512	932,057

In August - November 2005 the Group issued several loans to associate company Industrial and Logistics Centre Lapegles SIA amounting to Litas 842 thousand in total, with an annual interest rate of 6%. The maturity of loans is 31 July 2007.

	2005	2004
	Litas	Litas
16 Inventories		
Raw materials	19,917,287	9,360,084
Finished goods	6,610,610	4,986,296
Work in progress	4,843,429	2,049,390
Goods for resale	720,241	145,349
Net book value at 31 December	32,091,567	16,541,119

Major part of inventories are held by production companies AB Vilniaus Baldai (production of furniture) and AB Sanitas (production of medicine).

As at 31 December 2005, the inventories for total book value of Litas 300 thousand are pledged as a security for financing obtained from the bank.

17 Assets held for sale	2005	2004
	Litas	Litas
Real estate in Vytauto av./Kaunakiemio str., Kaunas	12,534,034	0
Building for resale in Veiveriu str., Kaunas	8,199,916	0
Administration premises in Zirmunu str.	989,567	0
Constructions in Juozapavicius str., Vilnius	955,806	0
Premises in Basanaviciaus str./Muitines str.	811,000	0
Real estate in Aukstaiciu str.	805,000	0
Real estate in Kalvariju str.	578,830	578,830
Administration premises in Europa centre, Vilnius	401,526	401,526
Real estate in Paupio str.	385,110	0
Flats in Kvieciu str., Vilnius	341,916	0
Real estate in Traku str.	213,061	213,061
Real estate in Elektrenai	202,363	0
Real estate in Uzkiemio str.	130,000	130,000
Flat in Akaciju str.	111,101	0
Real estate in Uzupio str.	85,441	85,441
Flat and construction in Laisves av., Kaunas	83,846	83,846
Land in Ateities str., Domantiskiu and Muniskiu str.	56,235	140,419
Administration premises in Zagare	33,367	33,367
Construction in Kestucio str., Kaunas	30,029	0
Constructions in Birutes str.	15,146	15,145
Building in Laisves av., Kaunas	0	1,963,319
Real estate in Vilnius	0	242,565
Real estate in Jovaro str.	0	134,935
Real estate in Paco str.	0	151,143
Real estate in Basanaviciaus/Algiro str.	0	216,103
Real estate in Maudyklos str.	0	296,689
	<u>26,963,294</u>	<u>4,686,389</u>

Two major assets held for sale is owned by AB Sanitas as at 31 December 2005.

Real estate in Vytauto av./Kaunakiemio str., Kaunas held for sale

At 31 December 2004 the Group was seeking a buyer for real estate in Kaunakiemio str., Kaunas, owned by the subsidiary UAB Altisana. The real estate is located next to the production plant of AB Sanitas in Vytauto av. in Kaunas.

In 2005, the Group took a decision to sell the real estate of UAB Altisana together with production premises of AB Sanitas. The sale is expected to be closed in April 2006.

The carrying amount of the real estate in Vytauto av./Kaunakiemio str. of Litas 12,354 thousand as at 31 December 2005 is below the fair value less cost to sell of Litas 23,063 thousand (net of estimated cost to sell of Litas 837 thousand). The fair value was estimated by reference to an

independent appraisal as of 30 December 2005. The estimated cost to sell comprises estimated notary fees and success fees to real estate agent.

Real estate in Veiveriu str. held for sale

In September 2005, the company concluded a preliminary agreement concerning disposal of the property located in Veiveriu str., Kaunas. In accordance with this agreement the Company received a prepayment of Litas 800 thousand for the assets mentioned. A sale is expected in 2006.

The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), exceeds the carrying amount of the property comprising Litas 8,200 thousand as at 31 December 2005. The fair value less cost to sell was estimated by reference to an independent appraisal, as well as the existing preliminary agreement.

18 Other non-current investments	2005	2004
	Litas	Litas
Equity securities	31,757,123	36,775,290
Government securities	98,169	0
Debt securities	0	314,646
Other	422,484	0
	<u>32,277,776</u>	<u>37,089,936</u>

Major part of equity securities are held for trading or available for sale securities owned by financial broker company AB FMI Finasta.

19 Trade and other receivables	2005	2004
	Litas	Litas
Prepayments	2,071,875	3,286,528
Trade debtors	45,104,683	38,680,803
Receivables from associates	29,746,519	1,785,939
Other amounts receivables	16,102,860	4,963,078
	<u>93,025,937</u>	<u>48,716,348</u>

Receivables from associates as at 31 December 2005 can be specified as follows:

	2005
	Litas
Receivables from associates	
Industrial and logistics centre Lapegles SIA	13,713,030
UAB Agrovaldymo grupe	5,902,448
UAB Kelesta	5,541,457
AMMO SIA	2,386,612
SIA Gravity	1,853,600
UAB VIPC Klaipeda	293,120
AB Umega	56,252
	<u>29,746,519</u>

Major part of receivables from associates is short term loans carrying annual interest rate of 4.8%-12% with a maturity at the end of 2006.

Other receivables includes Litas 11,974 thousand of refundable VAT which relates to investment property acquired in December 2005 from AB Lietuvos Telekomas on which VAT was paid.

Among other amounts receivable there are short term loans issued to the members of the Board of AB Invalda for Litas 721 thousand in total at the annual interest rate of 5%.

20 Capital and reserves

Share capital

As at 1 January 2005, the Company's share capital comprised of 40,417,339 ordinary shares with a nominal value of 1 Litas each. The nominal value of the capital registered amounted to 40,417,339 Litas.

In November 2005, 1,317,323 shares with a nominal value of 1 Litas per share were issued at 12.7 Litas per share. The share capital was increased by Litas 16,730,002, including the share premium of Litas 15,412,679.

As at 31 December 2005, the Company's share capital comprised of 41,734,662 ordinary shares with a nominal value of 1 Litas per share. The nominal value of the capital registered amounted to Litas 41,734,662.

The share capital was fully paid as at 31 December 2005 and 31 December 2004.

The holders of the ordinary shares are entitled to one vote per share in the shareholders meeting of the Company and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the share capital.

Legal reserve

The legal reserve in the amount of 3,020,471 Litas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover losses.

Fair value reserve

Investments in equity securities held by the Company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss on re-measurement being recognised directly in equity.

Fair value reserve also includes the cumulative increase Litas 8,773 thousand in the fair value of the buildings in AB Vilniaus Baldai (net of related deferred tax).

Other reserves

According to a decision of the shareholders other reserves are allocated for specific purposes. The reserves are distributable. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

21 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The average number of own shares acquired is eliminated from the weighted average number of the shares in issue.

Litas	2005	2004
Shares issued 1 January	40,417,339	38,000,000
Shares issued September 2004	0	2,417,339
Shares issued November 2005	1,317,323	0
Shares issued as at 31 December	41,734,662	40,417,339
Average weighted number of shares in issue	40,527,116	38,604,335
Net profit for the year	20,325,664	20,706,770
Earnings per share	0.50	0.54

The company has no dilutive potential shares or convertible shares. The diluted earnings per share are the same as basic earnings per share.

	2005	2004
	Litas	Litas
22 Other creditors		
Amount payable to Investment Amber Holding S.A	14,000,000	0
Taxes, salaries and social insurance payable	4,504,232	1,391,430
Vacation reserve and other accruals	3,587,249	793,431
Other amounts payable	16,548,029	7,981,305
	<u>38,639,510</u>	<u>10,166,166</u>

Amount payable to Investment Amber Holding S.A. is related to according to acquisition of shares of UAB Apželdinimas in 2005.

23 Interest bearing loans and borrowings		
Non-current liabilities		
Loans from banks	188,108,991	73,160,125
Financial lease liabilities	809,784	274,067
Other non-current financial liabilities	142,980	0
Total non-current liabilities	<u>189,061,755</u>	<u>73,434,192</u>
Current liabilities		
Loans from banks	134,159,705	13,035,616
Financial lease liabilities	538,831	243,742
Loans from associated companies	3,320,520	N/A
AB FMĮ Finasta bonds	8,024,206	8,027,397
Other financial liabilities	3,236,946	0
Total current liabilities	<u>149,280,208</u>	<u>21,306,755</u>
Total interest bearing borrowings	<u>338,341,963</u>	<u>94,740,947</u>

Bank loans terms and repayment schedule

	Total	2006	2007 to 2010	Later than 2011
"Nordea Finland Plc" loan in euros, fluctuating interest - 3 months. EURIBOR + 1,25%, maturity date August 2007.	7,993,232		7,993,232	
"Nordea Finland Plc" loan in euros, fluctuating interest - 3 months EURIBOR + 1,25%, maturity date June 2007.	3,271,841		3,271,841	
"Nordea bank Finland Plc loan in euros, fluctuating interest - 3 months EURIBOR + 0,8%	62,070,931	2,500,000	4,000,000	55,570,931
Loans from "Nordea Bank"	73,336,004	2,500,000	15,265,073	55,570,931
"Nord/LB" loan in euros, fixed interest - 3,99%, maturity - December 2007.	8,633,999		8,633,999	
"Nord/LB" loan in euros, fluctuating interest - 6 months EURLIBOR + 1,2%	1,674,998	59,999	750,000	864,999
"Nord/LB" loan in litas, fixed interest - 3,98%.	4,417,544	1,072,339	3,345,205	
"Nord/LB" credit line, fixed interest - 4,4%	2,133,707	2,133,707		
"Nord/LB" overdraft, fixed interest - 4,33%	407,533	407,533		
"Nord/LB" credit line, fixed interest - 4,5%	1,958,771	1,958,771		
"Nord/LB" credit line in euros, fixed interest rate 4,15%	10,196,118	10,196,118		
Loans from "Nord/LB Bank"	29,422,670	15,828,467	12,729,204	864,999
"Sampo bankas" laon in euros, fixed interest - 3,70%, maturity - December 2007.	8,999,999		8,999,999	
"Sampo bankas" loan in euros, fluctuating interest - 6 months EURIBOR + 1%, maturity date - December 2007.	9,854,591		9,854,591	
"Sampo bankas" credit line in litas, fluctuating interest - 6 months VILIBOR + 1,5%, maturity date - February, 2007.	14,276,000	4,776,000	9,500,000	
"Sampo bankas" laon in euros, fluctuating interest - 6 months EURIBOR + 1,5%, maturity date - December, 2011.	16,056,000	1,784,000	1,784,000	12,488,000
"Sampo Pank Estonia", loan in euros, fluctuating interest - 6 months EURLIBOR + 1,5%, maturity date - July, 2012.	17,000,962	707,962	2,833,000	13,460,000
"Sampo bankas" loan in euros, fluctuating interest - 6 months EURIBOR + 1,3%, maturity date - February, 2010.	7,070,000	1,700,000	1,700,000	3,670,000
"Sampo bankas" credit line in litas, fixed interest - 4%	5,000,000	5,000,000		
Loans from "Sampo bankas"	78,257,552	13,967,962	34,671,590	29,618,000

	Total	2006	2007 to 2010	Later than 2011
"SEB Vilniaus bankas" laon in litas, fluctuating interest - 6 months VILIBOR + 1,65%.	4,296,996	4,296,996		
"SEB Vilniaus bankas" laon in litas, fluctuating interest - 6 months VILIBOR + 1,78%.	4,521,530	4,521,530		
"SEB Vilniaus bankas" laon in euros, fluctuating interest - 6 months EURLIBOR + 1,67%.	8,749,999	8,749,999		
"SEB Vilniaus bankas" loan in litas, fluctuating interest - 6 months EURLIBOR + 1,32%	19,333,300	15,600,200	3,733,100	
"SEB Vilniaus bankas" loan in litas, fluctuating interest - 6 months EURLIBOR + 1,05%	7,200,124	872,740	6,327,384	
"SEB Vilniaus bankas" loan in litas, fluctuating interest - 6 months EURLIBOR + 1,32%	6,301,541		6,301,541	
"SEB Vilniaus bankas" loan in euros, fluctuating interest - 6 months EURLIBOR + 1,05%.	8,994,050	4,190,902	4,803,148	
"SEB Vilniaus bankas" loan in euros, fluctuating interest - 6 months LIBOR + 1,45%.	17,914,665	1,590,734	6,000,000	10,323,931
"SEB Vilniaus bankas" loan in euros, fixed interest - 4,17%, maturity -2011	2,300,090	400,000	1,600,000	300,090
"SEB Vilniaus bankas" loan in litas, fixed interest - 3,55%	171,984	171,984		
"SEB Vilniaus bankas" loan in litas, fluctuating interest - 6 months VILIBOR + 1,1%, maturity date April, 2006.	30,000,000	30,000,000		
Loans from "SEB Vilniaus bankas"	109,784,279	70,395,085	28,765,173	10,624,021
"Tatra Bank" credit line, fluctuating interest - 1 month BRIBOR + 1,2%	17,275,350	17,275,350		
Loan from AB SEB Vilniaus bankas	10,538,115	10,538,115		
"Šiaulių bankas" credit line, fixed interest - 4%.	2,538,327	2,538,327		
Financial liabilities to banks according to REPO deals	1,116,399	1,116,399		
Other loans	31,468,191	31,468,191		
Total	322,268,696	134,159,705	91,431,040	96,677,951

Pledges:

- UAB Naujoji Švara non- current assets (Litas 8,842,411), land rent rights, cash in Nordea Bank.
- UAB Ineturas non- current assets, building in Juozapavičiaus st., land rent rights, cash in Sampo Bank, UAB Ekotra land (Litas 2,806,409).
- UAB PVP Nida building in Juozapavičiaus st. 9A (Litas 8,629,348), building under construction (5,625,040 litas) and cash in Sampo bank.

- UAB Kelio Ženkilai non – current assets (Litas 2,640,100), inventories (300,000 Litas) and UAB “Broner” non – current assets and land.
- UAB Invalda shares of “Vilniaus baldai” (Litas 67.8 mio), shares of “Sanitas” (Litas 18,2 million).
- UAB InTF all the buildings and land rights, cash in SEB Vilniaus bankas.
- UAB Vilniaus Baldai non – current assets (Litas 54,754,000).
- UAB Minija buildings (Litas 1,202,000), machinery and other equipment, Litas 4 million guarantee of Kelio Ženkilai.
- UAB Valmeda buildings (Litas 28,335,590), shares of “Kelionių Viešbučiai” (Litas 279,887).
- UAB Finasta cash in Nord/LB bank.
- UAB Finasta Rizikos Valdymas security portfolio.
- UAB Klaipėdos konditerija building in Klaipėda.
- UAB Sanitas buildings and equipment (Litas 50,498,515).

24 Grants

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement to receive grants for the financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and are granted as actual expenses on construction are incurred. By 31 December 2005, the Company received a grant of Litas 1,415,424. The expected compensation of construction costs during 2006 amounts to Litas 14,741,727. The grant is not repayable.

25 Contingencies

As at 31 December 2005, buildings and equipment with a carrying amount of Litas 163,333 thousand, were pledged to secure the bank loans (refer to note 23). Besides, the shareholdings in several companies as well as other current assets are also pledged as specified in Note 23.

Asset purchase commitments are disclosed in Note 12.

AB Minija

In 1997 AB Minija received a loan of Litas 1,779 thousand from Tauro bank. The company has withdrawn Litas 74 thousand from the loan account before this bank went into bankruptcy. During the liquidation process of the Bank, AB Minija received a claim from liquidator of Tauro bank for Litas 1,086 thousand. In 1999, the court suspended the case regarding this claim. In 2003, the former managing director of the company signed a confirmation letter, accepting the company's liability of Litas 1,086 thousand to Tauro bank. At the balance sheet date the case is not renewed, but due to recurring claims from the creditors of the bank, there is an uncertainty regarding the outcome of this case.

26 Related party transactions

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 27), associates (see note 13) and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company control 46.29% of the voting shares of the Company. Loans to directors for the year ended 31 December 2005 amounted to Litas 721 thousand (and are included in "trade and other receivables" (see note 19). Annual interest of 6% is payable by the directors.

The key management compensations are as follows:

	2005	2004
Litas	_____	_____
Remuneration	203,754	172,904
Remuneration to Board	0	300,000
Dividends	2,886,823	1,086,037
Other significant amounts calculated	421,000	0
	_____	_____
Total	3,511,577	1,558,941
	=====	=====

Other related party transactions

Associates

During the year ended 31 December 2005, the associates purchased goods from the Group in the amount of Litas 1,718 thousand and at 31 December 2005 associates owed to the Group Litas

464 thousand. Transactions with associates are priced on an arm's length basis. Dividends of Litas 16 thousand were received from associates in 2005.

27 Group entities

Control of the Group

The control of the Group rests with the members of the Board and the management, holding controlling interest through direct and indirect shareholdings.

Significant subsidiaries

	Business sector	Country of incorporation	Ownership interest, %	
			2005	2004
Invaldos				
Nekilnojamojo Turto				
Fondas	Real estate	Lithuania	56.21	56.21
Vilniaus Baldai	Production of furniture	Lithuania	66.72	66.72
Sanitas	Production of medicine	Lithuania	39.21	30.47
FMI Finasta	Financial brokers	Lithuania	100	75
Valmeda	Hotels	Lithuania	100	100
Naujoji švara	Real estate development	Lithuania	100	100
Ineturas	Real estate	Lithuania	100	100

Although the Group owns less than half of the voting power of Sanitas AB, it is able to govern the financial and operating policies of the company by virtue of an agreement with the other investors of Sanitas AB. Consequently, the Group consolidates its investment in the company.

At the end of December 2005, Invalda Group acquired majority shareholding in AB Kauno tiltai through investment in UAB Kelesta. Nevertheless, the control was effectively taken over in January 2006, when the new board of AB Kauno tiltai was elected. Therefore the investment in AB Kauno tiltai was not consolidated into Invalda Group accounts in 2005.

28 Foreign currency

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's operations.

Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there were no significant concentrations of credit risk.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and/or have available funding through an adequate amount of committed credit facilities.

Foreign exchange risk

The Group's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars, Latvian lats and Slovak crowns. No financial instruments are used to hedge against the risk.

Interest rate risk

Most of the Group's borrowings are subject to variable interest rates, related to LIBOR and EURIBOR.

As at 31 December 2005, the Group did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

29 Subsequent events

AB Sanitas

On 18 January 2006, AB Sanitas established a subsidiary Sanitas Polska Sp.z. in Poland. The company is a special purpose vehicle for acquisition of Polish pharmacy producer Jelfa.

In January 2006, Nordea Bank approved a credit of EUR 83,000,000 for the purpose of financing of the planned acquisition of Jelfa.

In February 2006, the Company increased its holding of Jelfa shares to 9.99%.

On 27 February 2006 and the Company's subsidiary Sanitas Polska Sp.z. placed an official offer to acquire 90.01% shares of Jelfa, as disclosed in note 14. The official offer matured on 6 April 2006. In 2006, AB Sanitas acquired additionally 5,860,310 shares and increased its shareholding held in Jelfa up to 94.56%.

AB Valmeda

In February 2006, the Company has signed an amendment of a loan agreement with AB SEB Vilnius bank according to which currency of credit was changed from Litas to Euro and credit amount increased by Litas 12,251 thousand. The total loan amount is Litas 30,000 thousand and the maturity date is the year 2013.

AB Invalda

As of 1 January 2006, Algirdas Bučas resigned from the position of the Company's president and Darius Šulnis was elected for the position.

In the General Meeting of 12 January 2006, the former Board of the Company was dismissed and a new Board consisting of 4 persons – Alvydas Banys, Vytautas Bučas, Dailius Juozapas Mišeikis ir Darius Šulnis was elected.

Alvydas Banys was elected as the chairman of the Board.

The General Meeting of 12 January 2006 approved reorganisation of AB Invalda and UAB Pozityvios Investicijos by the method of merger, merging UAB Pozityvios Investicijos (which will be restructured to AB Pozityvios Investicijos before the reorganisation) to AB Invalda.

30 Explanation of transition to IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRSs. The old basis of accounting of the Group was Lithuanian Business Accounting Standards (LBAS)

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 have been restated correspondingly. The Group has not prepared consolidated accounts according to Lithuanian Business Accounting Standards at 1 January 2004 due to the fact that at that time there was no statutory requirement to prepare consolidated accounts. Therefore, the opening IFRS balance sheet as at 1 January 2004 (the Group's date of transition) was not prepared.

In preparing its comparative information for the year ended 31 December 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (LBAS). An explanation of how the transition from LBAS to IFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

	2004 as previously reported	Effect of transition to IFRSs	2004 restated
	Litas	Litas	Litas
Assets			
Property, plant and equipment	165,178,087	-31,264,913	133,913,174
Intangible assets	-3,799,995	9,855,808	6,055,813
Investment properties	0	26,578,524	26,578,524
Investments in associates	11,861,672	2,333,890	14,195,562
Other non-current investments	1,098,385	-	1,098,385
Non-current receivables	932,057	-	932,057
Deferred tax assets	0	1,297,245	1,297,245
Total non-current assets	175,270,206	8,800,554	184,070,760
Inventories	16,541,119		16,541,119
Assets held for sale	0	4,686,389	4,686,389
Other current investments	37,089,936	-	37,089,936
Trade and other receivables	49,160,730	-444,382	48,716,348
Cash and cash equivalents	9,547,269	-	9,547,269
Total current assets	112,339,054	4,242,007	116,581,061
Total assets	287,609,260	13,042,561	300,651,821
Equity and liabilities			
Equity attributable to equity holders of the parent	89,849,365	11,760,320	101,609,685
Minority interest	32,235,363	1,282,241	33,517,604
Total equity	122,084,728	13,042,561	135,127,289
Total non current liabilities	76,700,071	-	76,700,071
Total current liabilities	88,824,461	-	88,824,461
Total liabilities	165,524,532	-	165,524,532
Total equity and liabilities	287,609,260	-	300,651,821

	2004 as previously reported	Effect of transition to IFRSs	2004 restated
	Litas	Litas	Litas
Revenue	205,129,682	-	205,129,682
Cost of sales	-146,520,683	-	-146,520,683
Gross profit	58,608,999	-	58,608,999
Distribution expenses	-3,310,390	-	-3,310,390
Administrative expenses	-25,574,914	311,995	-25,262,919
Other operating income, net	904,692	-	904,692
Operating profit before financing activities	30,628,387	311,995	30,940,382
Financial income, net	648,933	-	648,933
Share of profit of associates	1,630,153	-	1,630,153
Profit before tax	32,907,473	311,995	33,219,468
Income tax expense	-6,095,956	973,589	-5,122,367
Profit for the year	26,811,517	1,285,584	28,097,101
Attributable to:			
Equity holders of the parent	19,631,004	1,075,766	20,706,770
Minority interest	7,180,513	209,818	7,390,331
Profit for the year	26,811,517	1,285,584	28,097,101
Basic earnings per share	0.51		0.54

The impact of transfer from LBAS to IFRSs on the result and equity of the Group can be further specified as follows:

	Profit for year 2004	Equity at 31 Dec 2004
	Litas	Litas
Statutory accounts according to LBAS:	26,811,517	122,084,728
Derecognition of negative goodwill and reverse of amortisation	311,995	12,189,698
Recognition of deferred tax asset on intercompany gains on sale of non-current asset	973,589	1,297,245
Other adjustments	-	-444,382
Total adjustments	1,285,584	13,042,561
Restated accounts as to IFRS	28,097,101	135,127,289