

**AB PANEVĖŽIO STATYBOS
TRESTAS**

*Independent Auditor's Report, Annual Report
and Financial Statements for the year
ended 31 December 2005*

AB PANEVĖŽIO STATYBOS TRESTAS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
ANNUAL REPORT	4 - 5
FINANCIAL STATEMENTS:	
BALANCE SHEET	6 – 7
INCOME STATEMENT	8
STATEMENT OF CHANGES IN EQUITY	9
CASH FLOW STATEMENT	10
NOTES TO THE FINANCIAL STATEMENTS	11 - 32

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Panevėžio Statybos Trestas:

We have audited the accompanying consolidated financial statements (page 6 to 32) of AB Panevėžio Statybos Trestas and subsidiaries (hereafter – the Group), which comprise the consolidated balance sheet as of 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

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

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We have reviewed the Annual Report (page 4 to 5) for the year ended 31 December 2005 and we have not identified any material discrepancies between the historical financial information presented in the Annual Report and the accompanying consolidated financial statements for the year ended 31 December 2005.

UAB Deloitte Lietuva
General Director Juozas Kabašinskas

Vilnius, Lithuania
31 March 2006

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

AB PANEVĖŽIO STATYBOS TRESTATAS

ANNUAL REPORT AS OF 31 DECEMBER 2005

REPORT ON THE COMPANY'S ACTIVITIES FOR THE YEAR 2005

To the Shareholders of Panevėžio Statybos Trestas AB

The Panevėžio Statybos Trestas AB Group (hereinafter referred to as the Company) continues to maintain its leading position among construction companies in Lithuania. Beside preparation, management and construction of commercial and public purpose projects, the Company successfully completed a couple of real estate projects in Vilnius and Palanga. These successfully completed projects had significant effect on the financial position of the Company. Seeking to diversify the portfolio of current and future projects, the Company continues its activities in the Kaliningrad area, St. Petersburg and Tcherepovets.

In 2005 the Company was devoting great attention to the quality of the works in execution, environment protection and labour safety.

Last year the chronicle of the Company was replenished by numerous and significant events: several exclusively huge construction objects were completed, important tenders were won, Company's management structure was optimised and new experience gained.

Efficient management of specialised divisions, continuing upgrade of the employees' competences, modernisation of equipment and implementation of new technologies allowed the Company to attain better operational results:

The consolidated total revenue of the Company during the 2005 reached 191.6 million Litass and was 27.3 per cent higher than in 2004 (150.5 million Litass in 2004). The total revenue of the Company was growing faster than Lithuanian construction market, which compared to the year 2004 went up by 15 per cent. Though the Company had planned to reach the turnover of 195 million Litass over the reporting period, this minor deviation from the actual figures obligates us to improve the complicated construction planning process.

The following biggest projects were completed or continued during the last year: Panevėžys City waste water treatment facilities, reconstruction of underground passes for the Lithuanian Railways, commercial buildings in Panevėžys, reconstruction of the rock wool production plant, reconstruction works at the President's Office, and others.

EBITDA for the year 2005 increased 2.3 times to reach 16.2 million Litass (in 2004 it was 7.0 million Litass, and the EBITDA margin reached 8.5 per cent (4.7 per cent in 2004). Profit before income tax for the year 2005 was 12.7 million Litass (3.8 million Litass in 2004). The net profit for the reporting period compared to the previous year of 2.6 million Litass, grew up 4.1 times to reach 10.7 million Litass. Net cash flow went up by more than 24.8 million Litass, though during the reporting financial year more than 16.6 million Litass were used to cover the financial debts from previous periods and to pay out close to 563 thousand Litass of dividends.

The authorised share capital of the Panevėžio Statybos Trestas AB consists of 16,350,000 ordinary registered shares of one Litass nominal value each. Panevėžio Keliai AB holds 49.8 per cent of Panevėžio Statybos Trestas shares.

Panevėžio Statybos Trestas AB managed 10 subsidiaries for the year ended December 31, 2005:

Audros Rūmai UAB - This company was founded on June 20, 2001 and is engaged in development of real estate projects in Klaipėda region. The Panevėžio Statybos Trestas AB holds 1,742 registered shares, nominal value of each is 1,000 Litass, the total nominal value of which is 1,742,000 Litass or 67 per cent of the authorised capital of the company.

Sėkmės Šaltinis UAB - The real estate development company active in the Vilnius region. The Panevėžio Statybos Trestas AB holds 100 per cent of the Sėkmės Šaltinis UAB shares, the total nominal value of which is 220,000 Litass.

Vekada UAB - This company specialises in carrying out electrical installation works and designing of electrical systems. The Panevėžio Statybos Trestas AB holds 50,559 registered shares nominal

AB PANEVĖŽIO STATYBOS TRESTAS

ANNUAL REPORT AS OF 31 DECEMBER 2005

value of 4 Litas each. The total nominal value amounts to 202,236 Litas, covering 95.6 per cent of the authorised capital of this company.

Skydmedis UAB - This company produces and assembles prefabricated wooden panel houses, other wood products and process timber. The Panevėžio Statybos Trestas AB is the holder of 100 per cent of the Skydmedis UAB shares, the nominal value of which is 12,500 Litas. In January 2006 the authorised capital of the Skydmedis UAB was increased to 500,000 Litas. All shares of the company belong to the Panevėžio Statybos Trestas AB.

Metalo Meistrai UAB - The company was established in 1999 and is engaged in designing and manufacturing of metal constructions. The Panevėžio Statybos Trestas AB holds 100 per cent of the Metalo Meistrai UAB shares, total nominal value of which is 12,500 Litas. In January 2006 the Metalo Meistrai UAB authorised capital was increased up to 81,500 Litas. All shares of this company belong to the Panevėžio Statybos Trestas AB.

PS Trests SIA - The real estate development company in Latvia. The Panevėžio Statybos Trestas AB holds 100 per cent of the PS Trests SIA shares, the total nominal value of which is 13,175 Litas.

Baltilstroij OOO - This company performs construction works in Kaliningrad. The Panevėžio Statybos Trestas AB holds 100 per cent of the Baltilstroij OOO shares, the total nominal values of which is 1,177,672 Litas.

Alinita UAB - This company is specialising in utilities and special engineering works in Klaipėda. The Panevėžio Statybos Trestas AB holds 100 per cent of the Alinita UAB shares, the total nominal value of which is 10,000 Litas.

Inžinerinės Veiklos Centras UAB - This Kaunas based company is engaged in engineering works. The Panevėžio Statybos Trestas AB holds 100 per cent of Inžinerinės Veiklos Centras UAB shares, the total nominal value equal to 150,000 Lt. In September and December of 2005 the Panevėžio Statybos Trestas AB acquired 3,675 ordinary registered shares of 10 Lt in nominal value each time.

The Company has two branches (Kaliningrad and St Petersburg) in the Russian Federation and a representative office in the city of Tchernopetovets.

Other branches of the Company:

Branch Gerbusta in Panevėžys is the biggest of the Company's branches specialising in utilities and outdoor engineering systems. Branch Pastatų Apdaila in Panevėžys is carrying various building decoration works. On May 23, 2005 the Panevėžio Statybos Trestas AB opened a new branch PST Būstas, which specializes and develops the residential property projects in Lithuanian and the Russian Federation. Mr. Laimas Daniūnas was appointed the head of this branch.

On December 01, 2005 the Board of the Company made the decision to sell the land plot located in Šeškinės st. in Vilnius. Currently intensive negotiations with potential buyers are in progress. On March 20, 2006 Audrius Varis was appointed as Development Director of the Company.

In the new financial year Panevėžio Statybos Trestas AB plans to reach the consolidated total revenue of 341 million Litas and EBITDA of 26.4 million Litas

Let us express our gratitude to customers, partners, shareholders and employees for being supportive in attaining the Company's goals. We expect that your support and goodwill will help us to secure our business success in the future.

The Report on the Company's Activities for the year 2005 was approved by the Board of Panevėžio Statybos Trestas AB on March 31, 2006.

Vygantas Sliesoraitis
Chairman of the Board

AB PANEVĖŽIO STATYBOS TREŠTAS

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

	Notes	2005 (LTL)	2004 (LTL)
ASSETS			
Intangible assets:	5		
Goodwill		105,671	105,671
Patents, licences		41,581	50,045
Computer software		131,209	60,807
Other intangible assets		1,855	2,510
		280,316	219,033
Tangible assets:	6		
Property, plant and equipment:			
Land		290,298	1,646,179
Buildings and constructions		9,412,623	10,002,703
Machinery and equipment		3,271,788	1,735,927
Vehicles		2,502,865	1,607,816
Other property, plant and equipment		2,972,481	2,825,621
Construction in progress		119,978	70,944
Other tangible assets		87,565	87,197
		18,657,598	17,976,387
Investment Property		1,218,920	1,286,000
		19,876,518	19,262,387
Financial assets:			
Accounts receivable after one year		246,083	92,175
Other financial assets		55,500	55,500
		301,583	147,675
Deferred tax asset	23	753,528	421,081
Total non-current assets		21,211,945	20,050,176
Current assets:			
Inventories	8	2,688,741	6,384,200
Prepayments		2,804,056	1,128,125
Contracts in progress	9	15,761,595	21,920,945
Accounts receivables	10	21,865,813	27,776,066
Receivables from subsidiaries and associates	10	-	22,203
Other accounts receivable	10	942,596	4,195,149
Other current assets	11	4,471,580	2,900,000
Cash and cash equivalents		27,914,028	3,131,179
Total current assets		76,448,409	67,457,867
TOTAL ASSETS		97,660,354	87,508,043

(Continued)

AB PANEVĖŽIO STATYBOS TREŠTAS

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

	Notes	2005 (LTL)	2004 (LTL)
EQUITY AND LIABILITIES			
Equity:			
Share capital	12	16,350,000	16,350,000
Revaluation reserve	13	4,671,344	5,029,438
Legal reserve	13	1,435,029	1,287,090
Retained earnings		14,707,636	4,212,974
Equity attributable to equity holders of the parent		37,164,009	26,879,502
Minority interest		738,910	823,078
Total equity		37,902,919	27,702,580
Non-current liabilities:			
Obligations under finance lease	16	2,704,620	1,305,744
Long-term borrowings	15	105,852	16,814,393
Deferred tax liabilities	23	852,054	947,883
Total non current liabilities		3,662,526	19,068,020
Current liabilities:			
Current portion of non-current debts	16	1,128,166	696,931
Short-term borrowings	15	2,407,985	2,302,000
Trade accounts payable		18,432,087	19,009,298
Advances received		22,914,776	9,029,044
Profit tax liabilities		1,675,376	1,141,208
Payroll related liabilities	18	7,869,610	6,360,778
Provisions		189,642	1,425,030
Other accounts payable and current liabilities	17	1,477,267	773,154
Total current liabilities		56,094,909	40,737,443
TOTAL EQUITY AND LIABILITIES		97,660,354	87,508,043

(Concluded)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2006 and signed by:

General Director

Dalius Gesevičius

AB PANEVĖŽIO STATYBOS TREŠTAS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 (LTL)	2004 (LTL)
Sales	19	191,589,890	150,510,440
Cost of sales	19, 20	(157,371,572)	(129,605,654)
Gross profit		34,218,318	20,904,786
Operating expenses	21	(20,214,681)	(16,397,809)
Operating profit		14,003,637	4,506,977
Other activity income		193,509	932,727
Other activity expenses		(756,897)	(1,152,381)
Interest income	22	10,536	1,519
Other finance income	22	89,728	174,793
Interest expenses	22	(581,292)	(606,523)
Other finance expenses	22	(221,595)	(45,783)
Profit before tax		12,737,626	3,811,329
Profit tax	23	(2,085,888)	(1,248,388)
Net profit		10,651,738	2,562,941
Attributable to:			
Equity holders of the parent		10,801,491	2,616,758
Minority interest		(149,753)	(53,817)
		10,651,738	2,562,941
Basic and diluted earnings per share	24	0.65	0.16

The accompanying notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2006 and signed by:

General Director

Dalius Gesevičius

AB PANEVĖŽIO STATYBOS TRESTAS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital (LTL)	Revaluation reserve (LTL)	Legal reserves (LTL)	Retained earnings (LTL)	Attributable to the equity holders of the parent (LTL)	Minority interest (LTL)	Total (LTL)
Balance as of 31 December 2003 (unaudited)	16,350,000	-	1,248,107	1,635,199	19,233,306	506,658	19,739,964
Revaluation of tangible fixed assets	-	5,833,164	-	-	5,833,164	-	5,833,164
Net profit of the reporting period	-	-	-	2,616,758	2,616,758	-	2,616,758
Deferred tax liability, related to revaluation of tangible fixed assets	-	(803,726)	-	-	(803,726)	-	(803,726)
Transfer to legal reserve	-	-	38,983	(38,983)	-	-	-
Increase in minority	-	-	-	-	-	316,420	316,420
Balance as of 31 December 2004	16,350,000	5,029,438	1,287,090	4,212,974	26,879,502	823,078	27,702,580
Net profit of the reporting period	-	-	-	10,801,491	10,801,491	(149,753)	10,651,738
Dividends	-	-	-	(562,691)	(562,691)	-	(562,691)
Acquisition of minority interest	-	-	-	-	-	65,757	65,757
Transfer to legal reserve	-	-	147,939	(147,939)	-	-	-
Revaluation of tangible fixed assets	-	48,256	-	-	48,256	-	48,256
Decrease of revaluation reserve, net of income tax	-	(403,801)	-	403,801	-	-	-
Deferred tax liability, related to revaluation of tangible fixed assets	-	(2,549)	-	-	(2,549)	(172)	(2,721)
Balance as of 31 December 2005	16,350,000	4,671,344	1,435,029	14,707,636	37,164,009	738,910	37,902,919

The accompanying notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2006 and signed by:

General Director

Dalius Gesevičius

AB PANEVĖŽIO STATYBOS TREŠTAS

CONSOLIDATED CASH FLOWS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 (LTL)	2004 (LTL)
CASH FLOWS FROM (TO) OPERATING ACTIVITIES		
Net Profit	10,651,738	2,562,941
Adjustments for:		
Depreciation and amortization	2,721,376	2,669,991
(Gain) loss of fixed assets sold	(12,861)	49,200
Other non-cash items	482,308	1,228,651
Interest expense	581,292	606,523
Interest income	(10,536)	(1,519)
Currency exchange loss (gain)	200,967	(108,956)
Other gains	(69,100)	(20,054)
	14,545,184	6,986,777
Changes in operating assets and liabilities:		
Increase in accounts receivable after one year	(153,908)	(316,880)
Decrease (increase) in inventories	3,662,121	(2,190,656)
(Increase) decrease in prepayments	(1,675,931)	2,415,000
Decrease (increase) in contracts in progress	6,159,350	(10,167,027)
Decrease (increase) in trade and other accounts receivable	9,155,388	(2,432,589)
Increase (decrease) in trade payables and advances received	12,491,860	(7,777,660)
Increase in profit tax liability	534,168	991,418
Increase in payroll related liabilities	1,479,877	2,119,628
(Decrease) increase in provisions	(1,235,388)	1,220,396
Increase (decrease) in other payables and current liabilities	713,367	(65,538)
Cash generated from provided (to) operations	45,676,088	(9,217,131)
Interest paid	(581,292)	(606,523)
Net cash provided by (used in) operating activities	45,094,796	(9,823,654)
CASH FLOWS FROM (TO) INVESTING ACTIVITIES		
Purchase of tangible and intangible fixed assets	(1,880,106)	(2,393,619)
Proceeds from sales of tangible fixed assets	517,459	796,301
Loans granted	(169,799)	-
Interest received	10,536	1,519
Acquisition of investment	-	(105,671)
Other gains from investing activities	-	585,875
Net cash used in investing activities	(1,521,910)	(1,115,595)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Dividends paid	(542,990)	-
Repayment of borrowings	(16,602,556)	-
Loans received	-	13,439,335
Repayments of finance leases	(1,713,591)	(1,194,273)
Other gains from financing activities	69,100	172,408
Net cash provided by (used in) financing activities	(18,790,037)	12,417,470
Net increase in cash and cash equivalents	24,782,849	1,478,221
CASH AND CASH EQUIVALENTS IN THE BEGINNING OF THE YEAR	3,131,179	1,652,958
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27,914,028	3,131,179

The accompanying notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2006 and signed by:

General Director

Dalius Gesevičius

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. General information

General information

AB Panevėžio Statybos Trestas (hereafter referred to as "the Company") was established in 1957 and was known as Šiaurės Lietuvos Statybos Trestas. In 1991 the Company was registered as State Capital Company. Later, on 30 October 1993 the Company was reorganized and registered as Joint Stock Company. Company code 147732969, VAT code LT477329610. Registration No. 013732, issued on 27 September 2004 by State Company Register Centre Panevėžys branch. The Company's shares are traded on the Lithuanian National Stock Exchange.

As of 31 December 2005 the Company had the following branches in Lithuania: Gerbusta, Pastatų Apdaila, Klaipstata, Darmesta, Vilsenta. These branches have an independent accounting from the parent company, but assets, liabilities and financial results are included in the financial statements of the Company. Klaipstata and Darmesta branches are accounted within the parent company. Vilsenta branch, which is registered in Vilnius city, is not operating, but was not removed from the register. The Company has representative office in Russia, in Čerepovec, and two branches in St Petersburg and Kaliningrad.

The main activity of the Company is design and construction of various buildings, structures, facilities, communications and other similar objects in Lithuania and abroad. The Company also rents out premises and equipment, resale of utility and communication services, sale of construction materials.

As of 31 December 2005 the Group employed 1,138 people (as of 31 December 2004 the Group employed 1,047 people).

As of 31 December 2005 the Group consists of the parent company and 10 subsidiaries as further described in Note 7. Details of the Company's subsidiaries as of 31 December 2005 are as follows:

Name	Country	Main address	Proportion of ownership interest	Principal activity
UAB Skydmedis	Lithuania	Pramonės st. 5, Panevėžys	100 %	Construction of wood houses
UAB Metalo Meistrai	Lithuania	Tinklų st. 7, Panevėžys	100 %	Production of metal constructions
UAB Vekada	Lithuania	Marijonų st. 36, Panevėžys	96 %	Electricity installation
TŪB Vilniaus Papėdė	Lithuania	Švitrigailos st. 8/14, Vilnius	69 %	Construction
UAB Audros Rūmai	Lithuania	Konstitucijos ave. 7, Vilnius	67 %	Construction of real estate
UAB Sėkmės Šaltinis	Lithuania	Konstitucijos ave. 7, Vilnius	100 %	Construction of real estate
UAB Alinita	Lithuania	Dubysos st. 31, Klaipėda	100 %	Air conditioning equipment
UAB Inžinerinės Veiklos Centras	Lithuania	Ringuvos st. 61 A, Kaunas	100 %	Designing services
PS Trests SIA	Latvia	Vietalvas 5, Riga	100 %	Construction
Baltilstroij OOO	Russia	Sovetskij ave. 43, Kaliningrad	100 %	Construction

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in no significant impact to the Group's financial position and results of its operations, except for the effect on current year financial position because of adoption of IFRS 5 (the impact of this change in accounting policies is discussed later in this note). There were no impact on basic and diluted earnings per share.

At the date of authorization of these financial statements, the following Standards and Interpretations were issued but not yet effective:

New standard, interpretation, amendment	Issued	Effective for annual periods beginning on or after
Amendments to IAS 39 - Cash flow hedge of forecast intragroup transactions - Guarantee contracts (IFRS 4 amended accordingly) - Fair value option	2004	1 January 2006
Amendment to IAS 1 to add capital disclosures	2005	1 January 2007
Employee Benefits	2004	1 January 2006
Insurance Contracts	2005	1 January 2006
Amendment for financial guarantee contracts		
IFRS 6 Exploration for and evaluation of mineral resources (IFRS 1 amended accordingly)	2004	1 January 2006
IFRS 7 Financial Instruments: Disclosure (supersedes IAS 30)	2005	1 January 2007
IFRIC 4 – Determining whether an Agreement contains a Lease	2004	1 January 2006
IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	2004	1 January 2006
IFRIC 6 Liabilities arising from Participation in a specific market – Waste electrical and electronic references	2005	1 December 2005
IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies	2005	1 March 2006
IFRIC 8 Scope of IFRS 2	2006	1 May 2006
IFRIC 9 Reassessment of embedded derivatives	2006	1 June 2006

The management anticipates that the adoption of these standards and interpretations in future periods will have no significant impact on the financial statements of the Group.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

3. Accounting policy

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39, which has not been adopted by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been adopted by the EU at the balance sheet date. The financial statements have been prepared on the historical cost basis, except for the revaluation of buildings, non-current assets held for sale and certain financial assets, which are stated at fair value. The principal accounting policies are set out below.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The accompanying financial statements are presented in the national currency of Lithuania the Litas (LTL).

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of income in the period of acquisition.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are assessed for impairment annually, or more frequently, and tested for impairment when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets (except for goodwill)

Expenses are recognised as intangible asset if the following requirements are met: it is reasonably expected to receive a benefit from this asset; the acquisition cost can be credibly evaluated and distinguished from the value of other assets; the Group is able to dispose and control the asset or to limit the usage of the item.

Intangible assets are stated at historical cost, less accumulated amortization and impairment losses. Amortization is computed using the straight-line method over the estimated useful lives of the related assets. The liquidation value is not calculated. In the income statement amortization expenses are distributed into depreciation, amortization and impairment loss expenses.

The groups of intangible assets and their amortization periods are determined as follows:

Groups of non-current intangible assets	Average useful life (in years)
Licenses and patents	3
Computer software	3
Other intangible assets	4

Intangible assets exploitation and other later expenses are distributed to the periods when they were occurred.

Gains and losses on disposal of fixed intangible assets are recognized in the year of disposal.

The losses of impairment and disposals of intangible assets are classified to operating expenses.

Non-current tangible assets

Non-current tangible assets are such assets, which are under the Group's ownership and control; which are reasonably expected to bring economic benefits in future periods; which are going to be used longer than one year; which acquisition (production) cost can be reliably measured; and which acquisition value is exceeding 1,000 LTL.

Depreciation is computed using the straight-line method. Liquidation value is equal 1 LTL. Depreciation costs are accounted as operating expenses or production costs and operating expenses.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The groups of non-current tangible assets and their useful lives are:

Groups of non-current tangible assets	Average useful life (in years)
New buildings	8 - 25
Residential buildings	20 - 40
Other buildings	15 - 25
Machinery and equipment	5 - 10*
Devices (structures, bores)	8 - 15*
Electricity transmission and communication devices (except for computer network)	8
Furniture	6
Computer and communication equipment	3
Cars, not older than 5 years	6
Other cars	Up to 6*
Vehicles, trailers and semi trailers, buses not older than 5 years	4
Other vehicles, trailers, semi trailers and buses	Up to 4*
Other fixed assets	4

*Depreciation rate for old cars, vehicles, trailers, semi trailers and buses is determined and approved by commission of Group management based on condition of such assets and estimated useful life. On purchase of buildings, useful life is determined individually. On purchase of machinery and equipment, depreciation rate is determined by the commission, which confirms the fact of such assets transfer to use within the range of depreciation rates approved.

Non-current tangible assets are stated at historical cost, less accumulated depreciation and impairment losses, except for real estate, which are stated at fair value.

As of 31 December 2004 the Group has changed the method of accounting for buildings, and buildings at fair value, less accumulated depreciation and impairment loss. Fair value of buildings was determined by independent professional real estate appraisers. The excess of fair value over net book value, net of deferred tax, was recognized as revaluation reserve. As a result of revaluation the value of buildings of the Group as of 31 December 2004 has increased by LTL 5,833,164.

Gains and losses on disposal of non-current tangible fixed assets are recognized in the year of disposal.

Revaluation methods of tangible assets

Non-current tangible assets are initially recorded at their acquisition cost and subsequently revaluated and recorded at the revaluation amount less accumulated depreciation and impairment.

If a revaluation of non-current tangible assets is performed, such revaluation is carried out on a regular basis, not less than once in five years. Non-current tangible assets (all assets or a particular group of assets) the fair value of which continuously and significantly changes are revaluated more often.

In case of revaluation of one item of non-current tangible assets, the revaluation also applies to all groups of non-current tangible assets to which such asset item belongs. All assets attributed to one group are revaluated at the same time.

Revaluation is performed and recorded on an item by item basis. If revaluation of non-current tangible asset results in value increase, such increase is recorded as an increase in the value of non-current tangible assets and is credited to the revaluation reserve. If revaluation of non-current tangible asset results in a value reduction, such reduction is recorded as a decline in the non-current tangible asset value and is recognized as impairment loss in the reporting period

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

income statement, unless the value of such assets has previously been increased as a result of revaluation.

If an item of non-current tangible assets has previously been revaluated and the related revaluation reserve is outstanding, the reduction in its value is recorded as a decrease in the revaluation reserve. The amount of impairment in excess of the revaluation reserve of the asset is recognized as an impairment loss in the reporting period.

If the revaluation of a non-current tangible asset results in a value increase, for assets where impairment has previously been recognized, the increase in value not exceeding previously recognized impairment is recorded as a reduction of impairment charge, the excess is charged to the revaluation reserve.

The revaluated asset's depreciation charge in subsequent periods is adjusted so, that the revaluated balance of the asset, after deduction of its liquidation value (if applicable), would be proportionally recognized as an expense throughout its remaining useful life.

When asset is disposed or written off the related revaluation reserve is released to retained earnings (accumulated deficit).

Non – current assets held for sale

Non – current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The Group adopted IFRS 5 from 1 January 2005 prospectively in accordance with the standard's provisions. The non – current assets held for sale were previously neither classified nor presented as current assets or liabilities. Such non – current assets were not previously measured differently from other assets and liabilities.

Investment property

Investment property is property, which is held to earn rentals and for capital appreciation. Investment property is initially measured at cost, after initial recognition, at cost less any accumulated depreciation and any accumulated impairment losses. Investment property is included within non-current tangible fixed assets and depreciated over their useful economic lives.

Impairment of assets (except goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revaluated amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revaluated amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Investments

Investments are recognized and derecognised on a trade-date basis and are initially measured at cost.

Investments available for sale are subsequently measured at fair value. Equity instruments that do not have the quoted market prices are subsequently measured at cost less impairment losses recognized. Gain and loss on equity instruments available for sale are included in the statement of income for the period.

Equity securities are measured at cost less any impairment in the value of individual investments.

Investment securities with fixed maturity where management has both the intent and ability to hold to maturity are classified as held-to-maturity. Held to maturity investments are carried at amortized cost using the effective yield method, less any provisions for impairment.

Revenue recognition

Revenue from the rendering of services

Revenue are recognized when the transaction is finished or the stage of completion of the transaction at the balance sheet date can be measured reliably (see below).

Revenue from construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion of contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from the sale of goods

Revenue from the sale of goods is recognized when significant risks related with sold goods and rewards of ownership of the goods are transferred to the buyer, and the amount of revenue can be measured reliably.

Interests

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Expenses recognition

Expenses are recognized on an accrual basis as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Fair value of financial instruments

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of management, the fair value of financial assets and liabilities differs from their book value, such fair values are separately disclosed in the notes to the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets approximates their fair value.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of income when there is objective evidence that the asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets held under operating lease are recorded as non-current tangible assets. Such assets are depreciated over their estimated useful lives. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to expenses on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost of purchase (production) or net realizable value.

AB PANEVĖŽIO STATYBOS TRESTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The cost of purchase of inventories comprises the purchase price, all purchase-related taxes and charges (except for those to be recovered later), transportation, preparation for use and other costs directly attributable to the acquisition of inventories.

The cost of inventory is calculated using the FIFO method (which assumes that the items of inventory that were sold or used first are purchased first) and weighted average method (for materials used in construction projects).

Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Taxation

Income tax expense represents the sum of the tax currently payable and movements in deferred income tax.

The charge for current tax is based on the result for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates (15%) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The applicable rates used for the principal currencies as of 31 December 2005 and 2004 were as follows:

2005		2004	
1 USD	= 2.9102 LTL	1 USD	= 2.5345 LTL
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
1 RUB	= 0.1013 LTL	1 RUB	= 0.0911 LTL

All resulting gains and losses relating to cash are recorded in the statement of profit and loss in the period in which they arise. Gains and losses on translation are credited or charged to the income statement based on the foreign exchange rates prevailing at the year-end.

Business segment

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments.

Geographical segment

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environment.

Financial risk management policy

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. Credit risk, or the risk of counterparties defaulting, are controlled by the application of credit limits and monitoring procedures. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

Interest rate risk

The Group's loans consist of loans with floating interest rate, which is related with LIBOR, VILIBOR. The Group did not use any financial instruments in order to control the risk of interest rate changes.

Foreign currencies exchange risk

The Group has a policy to harmonize the cash flows from expected sales in the future with the expected purchases and other expenses in each foreign currency. At the moment the Group doesn't use any derivative financial instruments in order to control foreign currencies exchange risk.

Liquidity risk

In order to maintain a sufficient amount of cash and control over the liquidity risk, the Group makes monthly and annual cash flows forecasts.

Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the shareholders.

Reclassification

Some amounts in the financial statements of year 2004 were reclassified to conform to the 2005 basis of presentation.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4. Critical judgementsjudgments and uncertainty

Critical judgments in applying the entity's accounting policies

Fixed assets depreciation rates

In making its judgementjudgment for the remaining useful life of property, plant and equipment, management considered the conclusions from the independent assets appraisal and employees responsible for technical maintenance of assets.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

5. Intangible assets (LTL)

	Develop- ment works	Goodwill	Patents, licenses	Software	Other intangible assets	Total
Purchasing costs						
As of 1 January 2005	42,346	105,671	113,759	302,322	6,848	570,946
Changes of the financial year:						
- acquisition of assets	-	-	8,140	126,645	-	134,785
- disposals	(42,346)	-	(962)	(121,647)	-	(164,955)
- transfers between groups	-	-	8,140	(8,140)	-	-
31 December 2005	-	105,671	129,077	299,180	6,848	540,776
Amortization						
As of 1 January 2005	42,346	-	63,714	241,515	4,338	351,913
Changes of the financial year:						
- charge for the year	-	-	24,065	48,760	655	73,480
- disposals	(42,346)	-	(961)	(121,626)	-	(164,933)
- transfers between groups	-	-	678	(678)	-	-
31 December 2005	-	-	87,496	167,971	4,993	260,460
Net book value						
31 December 2004	-	105,671	50,045	60,807	2,510	219,033
Net book value						
31 December 2005	-	105,671	41,581	131,209	1,855	280,316

All of the Group's tangible fixed assets are held for its own use.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

6. Tangible assets (LTL)

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Other tangible assets	Investment property	Total
Cost or valuation									
As of 1 January 2005	1,646,179	15,655,178	5,899,453	4,908,717	9,065,586	70,944	268,385	2,585,944	40,100,386
- additions	45,900	24,666	1,897,129	1,441,801	1,758,081	49,034	72,412	-	5,289,023
- disposals	-	(246,358)	(396,628)	(276,234)	(2,761,550)	-	(30,230)	-	(3,711,000)
- reclassified as held for sale	(1,401,781)	-	-	-	-	-	-	-	(1,401,781)
- transfers between groups	-	-	1,425,403	(347,759)	(1,177,437)	-	99,793	-	-
31 December 2005	290,298	15,433,486	8,825,357	5,726,525	6,884,680	119,978	410,360	2,585,944	40,276,628
Accumulated depreciation and impairment									
As of 1 January 2005	-	5,652,475	4,163,526	3,300,901	6,239,965	-	181,188	1,299,944	20,837,999
- charge for the year	-	210,830	692,251	415,953	955,992	-	44,768	39,699	2,359,493
- impairment loss recognised in profit and loss	-	261,022	-	-	-	-	-	27,381	288,403
- disposals	-	(103,464)	(348,196)	(153,927)	(2,451,617)	-	(28,581)	-	(3,085,785)
- transfers between groups	-	-	1,045,988	(339,267)	(832,141)	-	125,420	-	-
31 December 2005	-	6,020,863	5,553,569	3,223,660	3,912,199	-	322,795	1,367,024	20,400,110
Net book value									
31 December 2004	1,646,179	10,002,703	1,735,927	1,607,816	2,825,621	70,944	87,197	1,286,000	19,262,387
Net book value									
31 December 2005	290,298	9,412,623	3,271,788	2,502,865	2,972,481	119,978	87,565	1,218,920	19,876,518

The assets stated above are held for the Group's own use.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Fully depreciated tangible assets still in use:

Asset group name	Cost (LTL)
Buildings and constructions	792,167
Machinery and equipment	3,707,697
Vehicles	2,363,661
Other property, plant and equipment	1,633,676
Other tangible assets	162,018

Pledged fixed assets

Asset group name	Net book value (LTL)	Pledge expiration date
Buildings and constructions	3,458,516	31/01/2008
Buildings and constructions	2,362,646	01/03/2008
Buildings and constructions	733,243	27/04/2007
Total	6,554,405	

As of 31 December 2005 the net book value of fixed assets purchased under finance lease amounted to LTL 4,608,366 LTL (2004: LTL 2,396,219).

7. Subsidiaries

Details of the Company's subsidiaries at 31 December 2005 and 2004 were as follows:

Subsidiary	Business	Percentage owned	2005 Net profit (loss) (LTL)	2004 Net profit (loss) (LTL)
UAB Skydmedis	Construction of wood houses	100 %	117,581	2,432
UAB Metalo Meistrai	Production of metal constructions	100 %	199,545	8,090
UAB Vekada	Electricity installation	96 %	212,348	56,527
TŪB Vilniaus Papėdė	Construction	69 %	223	(66)
UAB Audros Rūmai	Construction of real estate	67 %	(219,446)	(112,956)
UAB Sėkmės Šaltinis	Construction of real estate	100 %	6,523,777	(183,549)
UAB Alinita	Air conditioning equipment	100 %	61,866	2,340
UAB Inžinerinės Veiklos Centras	Designing services	100 %	(219,727)	(785)
PS Trests SIA	Construction	100 %	(118,584)	(118,768)
Baltilstroj OOO	Construction	100 %	(131,709)	(104,353)
Total			6,425,874	(451,088)

The financial statements of PS Trests SIA and Baltilstroj OOO were not consolidated in the Group financial statements as of 31 December 2005 and 2004, due to insignificance .

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

8. Inventories (LTL)

As of 31 December inventories were as follows:

	2005	2004
Raw materials and completion goods	1,516,101	1,427,456
Finished goods	256,447	2,885,127
Purchased goods held for resale	991,521	2,158,119
Write-down to net realizable value	(75,328)	(86,502)
Total	2,688,741	6,384,200

As of 31 December 2005 and 2004 inventories held by third parties amounted to LTL 876,380 and LTL 1,982,601 respectively.

9. Contracts in progress (LTL)

As of 31 December contracts in progress were as follows:

	2005	2004
Land lease right	8,394,000	115,000
Acquisition of building	3,597,983	3,597,983
Advances paid to subcontractors	1,743,993	2,512,565
Inventory	1,056,351	3,513,449
Capitalized borrowing costs	337,276	337,276
Demolition works	152,542	152,542
Designing costs	128,153	375,311
Conception creation expenses	92,411	-
Project management expenses	86,003	259,804
Architectural tender costs	71,704	-
Building construction	-	10,581,514
Other	101,179	475,501
Total	15,761,595	21,920,945

10. Accounts receivable (LTL)

As of 31 December accounts receivable were as follows:

	2005	2004
Trade receivable	24,485,275	30,159,604
Other receivables	942,596	4,195,149
Provisions for doubtful receivables	(2,619,462)	(2,361,335)
Total	22,808,409	31,993,418

As of 31 December 2005 and 2004 retained accounts receivable in the amount of LTL 2,147,655 and LTL 1,059,843 respectively were accounted as trade accounts receivable. The retained accounts receivable are held according to agreements and are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The movement in the provision for doubtful accounts receivable:

	2005	2004
1 January	2,361,335	2,208,432
Increase of provisions	655,781	226,598
Recovery of accounts receivable previously provided for	(10,466)	(57,028)
Write off of bad debts	(387,188)	(16,667)
31 December	2,619,462	2,361,335

11. Other current asset

As of 31 December 2004 other current asset included land lease rights in the amount of LTL 2,900,000 acquired on acquisition of subsidiary as it was intended to be realized on the disposal of real estate that is under construction.

As of 31 December 2005 the other current assets included land lease rights acquired on acquisition of subsidiary and land owned by the Company, reclassified from fixed assets and accounted for as Non - current assets held for sale.

12. Share capital

As of 31 December 2005 the issued capital consisted of 16,350,000 authorized ordinary shares at par value of LTL 1 each. All shares were fully paid.

As of 31 December 2005 and 2004 Company's shareholders were:

Shareholders	2005		2004	
	(LTL)	%	(LTL)	%
AB Panevėžio Keliai	8,138,932	49.78	8,138,932	49.78
Hansabank clients	2,835,759	17.34	-	-
Suprema AS	669,198	4.09	-	-
AS Suprema Securities	598,649	3.66	-	-
SEB Eesti Uhispank As				
KAUPLEMINE	550,750	3.37	-	-
Remigijus Juodviršis	300,336	1.84	300,336	1.84
Vėgelienė Vida	-	-	3,000,000	18.35
Mindaugas Vėgėlė	1,000	0.01	2,492,165	15.24
Other	3,255,376	19.91	2,418,567	14.79
Total	16,350,000	100.00	16,350,000	100.00

There were no movements in the share capital of the Company during the year 2005.

13. Reserves (LTL)

Tangible fixed assets revaluation reserve consists of initial revaluations modified by subsequent increases and decreases. The revaluation was carried out on 31 December 2004 by an independent Lithuanian certified appraiser UAB Korporacija Matininkai. Revaluation results were accounted for on 31 December 2004.

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net distributable profit are required until the legal reserve reaches 10% of the registered share capital. The appropriation is restricted to reduction of the accumulated deficit.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

14. Financial Relations with Group Management (LTL)

	2005	2004	Closing balance as of 31 December 2005
Amounts calculated during a year in connection with employment relations to:			
Management	1,927,023	1,466,007	270,880
Average annual number of management	31	24	-

15. Borrowings (LTL)

As of 31 December the borrowings were as follows:

	2005	2004
Loan from AB "SEB Vilniaus bankas" (LTL); granted to UAB Audros Rūmai; maturity in 2006; interest rate – 3 month VILIBOR + 2.45 %.	2,400,000	-
Loan from private individual (LTL); granted to UAB Sėkmės Šaltinis; maturity in 2010; interest free.	105,852	105,852
Overdraft from AB "bankas Hansabankas" (LTL); granted to UAB Alinita; maturity in 2006; interest rate – 15 %.	7,985	-
Credit line from UAB "Sampo bankas" (LTL); granted to UAB Sėkmės Šaltinis; maturity in 2006; interest rate – 6 month VILIBOR + 1.6 %.	-	10,456,602
Overdraft from AB "bankas Hansabankas" (LTL); granted to AB Panevėžio Statybos Trestas; maturity in 2006; interest rate – 4.59 %.	-	4,969,490
Credit line from AB "SEB Vilniaus bankas" (LTL); granted to AB Panevėžio Statybos Trestas; maturity in 2006; interest rate – 4.55 %.	-	1,282,449
Loan from UAB Alproka (LTL); granted to UAB Sėkmės Šaltinis; maturity in 2006; interest free.	-	102,000
Loan from AB "SEB Vilniaus bankas" (LTL); granted to UAB Audros Rūmai; maturity in 2005; interest rate – 3 month VILIBOR + 2.45 %.	-	2,200,000
	2,513,837	19,116,393

The loans are repayable as follows:

On demand or within one year	2,407,985	2,302,000
In the second year	-	16,708,541
After five years	105,852	105,852
	2,513,837	19,116,393
Less: Amount due for settlement within 12 months (shown under current liabilities)	2,407,985	2,302,000
Amount due for settlement after 12 months	105,852	16,814,393

As of 31 December 2005 the loan granted to UAB Audros Rūmai was secured by the rights of land lease in H.Manto g. 7 / M.Mažvydo al. 2, Klaipėda, Lithuania.

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

16. Obligations under finance lease (LTL)

The Group has outstanding obligations in connection with the acquisition of fixed assets under finance lease.

As of 31 December the future annual minimum obligations under finance leases of fixed assets were as follows:

	2005		2004	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Accounts payable under finance leases:				
Within one year	1,246,580	1,128,166	761,781	696,931
In the second to fifth inclusive	2,863,026	2,704,620	1,383,976	1,305,744
Minimum lease payments	4,109,606	3,832,786	2,145,757	2,002,675
Less: future finance charges	(276,820)	-	(143,082)	-
Present value of lease obligations	3,832,786	3,832,786	2,002,675	2,002,675

All lease obligations are denominated in LTL.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance lease are secured by the lessors' title to the leased assets.

17. Other accounts payable and current liabilities (LTL)

	2005	2004
Taxes payable	1,304,105	675,603
Dividends payable	19,701	-
Other	153,461	97,551
Total	1,477,267	773,154

As of 31 December 2005 retained accounts payable in the amount of LTL 170,487 (2004: LTL 0) were accounted as trade accounts payable. Retained accounts payable are not paid according to the agreements until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

18. Payroll related liabilities (LTL)

	2005	2004
Vacation reserve	3,095,260	2,297,360
Payable salary	2,017,172	1,690,190
Payable social security	1,006,137	846,692
Accrued bonuses	895,765	839,103
Payable personal income tax	849,259	682,551
Payable guarantee fund	6,017	4,882
Total	7,869,610	6,360,778

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

19. Geographical and business segments (LTL)

As of 31 December the Group's sales and expenses by geographical segments were as follows:

2005	Lithuania	Russia	Germany	Sweden	Iceland, Norway	Total
Income						
Sales	175,522,099	12,219,105	521,809	574,118	2,752,759	191,589,890
Expenses	(161,037,262)	(12,800,010)	(508,242)	(559,191)	(2,681,548)	(177,586,253)
Operating profit	14,484,837	(580,905)	13,567	14,927	71,211	14,003,637
2004	Lithuania	Russia	Germany	Sweden	Iceland, Norway	Total
Income						
Sales	108,435,661	39,263,582	1,833,955	-	977,242	150,510,440
Expenses	(104,993,390)	(38,221,194)	(1,819,283)	-	(969,596)	(146,003,463)
Operating profit	3,442,271	1,042,388	14,672	-	7,646	4,506,977

As of 31 December the Group's sales and expenses by business segments were as follows:

2005	Constructions	Sales of real estate	Sales of goods	Other	Total
Income					
Sales	144,221,537	34,758,084	6,195,795	6,414,474	191,589,890
Expenses	(139,730,473)	(25,731,921)	(5,971,850)	(6,152,009)	(177,586,253)
Operating profit	4,491,064	9,026,163	223,945	262,465	14,003,637
2004	Constructions	Sales of real estate	Sales of goods	Other	Total
Income					
Sales	136,630,071	2,656,254	4,264,767	6,959,348	150,510,440
Expenses	(133,087,198)	(2,125,266)	(4,097,194)	(6,693,805)	(146,003,463)
Operating profit	3,542,873	530,988	167,573	265,543	4,506,977

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

20. Cost of sales (LTL)

	2005	2004
Subcontractors' services	62,959,602	53,973,070
Materials	54,317,382	54,056,117
Payroll and related expenses	28,999,281	17,662,129
Depreciation and amortisation expenses	1,696,948	1,104,508
Other	9,398,359	2,809,830
Total	157,371,572	129,605,654

21. Operating expenses (LTL)

	2005	2004
Payroll and related expenses	9,175,794	9,166,664
Sales commissions	2,448,211	-
Services purchased	2,139,935	2,655,958
Advertising expenses	1,118,773	387,192
Depreciation and amortization expenses	887,575	1,188,882
Taxes	874,705	964,077
Impairment losses	749,911	388,129
Materials consumed	693,278	803,797
Repair and maintenance expenses	356,968	415,039
Other	1,769,531	428,071
Total	20,214,681	16,397,809

22. Finance income and expenses (LTL)

	2005	2005
Interest income	10,536	1,519
	10,536	1,519
Fines and late payments	49,738	65,837
Currency exchange gain	-	108,956
Other income	39,990	-
	89,728	174,793
Interest expenses	(581,292)	(606,523)
	(581,292)	(606,523)
Currency exchange loss	(200,967)	-
Fines and late payments	(20,628)	(45,783)
	(221,595)	(45,783)
Total	(702,623)	(475,994)

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

23. Income tax expense

A reconciliation of income tax expense at the statutory rate to income tax (benefit)/expense at the Group's effective rate is as follows:

	2005		2004	
	(LTL)	%	(LTL)	%
Profit before income tax	<u>12,737,626</u>		<u>3,811,329</u>	
Tax at the statutory income tax rate (15 %)	1,910,644	15.00	571,699	15.00
Effect of different tax rates of subsidiaries operating in other jurisdictions	311,397	2.44	676,689	17.75
Tax effect of expenses / income that are not taxable in determining taxable profit	(216,357)	(1.70)	-	-
Change in deferred income tax asset valuation allowance	81,461	0.64	-	-
Adjustment of prior year income tax	(1,257)	(0.01)	-	-
Income tax expense	<u>2,085,888</u>	<u>16.37</u>	<u>1,248,388</u>	<u>32.75</u>

	2005	2004
The components of income tax expense are as follows:		
Current income tax expense	2,518,142	1,669,469
Change in deferred income tax position charged to profit and loss	(430,997)	(421,081)
Adjustment of prior year income tax	(1,257)	-
Income tax expense	<u>2,085,888</u>	<u>1,248,388</u>

In addition to the income tax expense charged to profit or loss, a deferred tax charge of LTL 2,721 (2004: LTL 803,726) has been recognised in equity in the year.

	2005	2004
Deferred income tax asset	(834,989)	(421,081)
Valuation allowance	81,461	-
Deferred income tax asset after valuation	<u>(753,528)</u>	<u>(421,081)</u>
Deferred income tax liability	852,054	947,883
Net deferred tax position	<u>98,526</u>	<u>526,802</u>

AB PANEVĖŽIO STATYBOS TREŠTAS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

24. Earnings per share

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2005 and 2004 was 16,350,000.

The Group had no dilutive options outstanding during 2005 and 2004 or at 31 December 2005 and 2004.

25. Related party transactions

During 2005 the Group entered into the following transactions and had the following outstanding balances at 31 December 2005 with related parties:

	Sale of goods and services	Purchase of goods and services	Amounts owed by related parties	Amounts owed to related parties
AB „Panevėžio keliai“	36,129	204	13,197	-
UAB „Constructus“	692,155	940	318,424	-
UAB „Realtus“	-	2,188,694	-	1,881,033
UAB „Naujasis Užupis“	-	-	2,034	-
Total	728,284	2,189,838	333,655	1,881,033

26. Contingent liabilities

As of 31 December 2005 the Group had outstanding commitments of LTL 54,733 related to the rental of vehicles.
