AB Vilniaus Baldai

Annual Accounts for the year 2005

Contents

Company details

AB Vilniaus Baldai

Telephone	+ 370 5 2525 700
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Registered office:	Savanorių pr. 178, Vilnius, LT-03154 Lithuania

Board of Directors

Alvydas Banys (Chairman)
Algirdas Bučas
Dailius Juozapas Mišeikis

Management

Viktoras Majauskas (Managing director)
Vytautas Radžius (Technical director)
Algirdas Zavistanavičius (Personnel director)
Virginijus Žibutis (Production director)
Artūras Dovydėnas (Marketing director)
Vygantas Didžiulis (Chief finance officer)

Auditors

KPMG Baltics UAB

Bankers

AB Sampo Bank
AB SEB Vilnius Bank

Management's statement on the accounts

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

The annual accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the annual accounts thus give a true and fair view.

We recommend the annual accounts to be approved at the General Meeting.

Vilnius, 4 April 2006

Management:

Viktoras Majauskas
Managing director

Board of Directors:

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Alvydas Banys (Chairman)	Algirdas Bučas	Dailius Juozapas Mišeikis

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Report of the auditor to the shareholders of AB Vilniaus Baldai

We have audited the accompanying balance sheet of AB Vilniaus Baldai as at 31 December 2005 and the related income statement, statement of changes in equity and cash flow statement for the year then ended.

These financial statements, as set out on pages 5 to 25 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with International Financial Reporting Standards the Company revaluated its buildings up to fair value in the year 1999. Since then no revaluation has been recorded. It was not possible for us by other practicable audit procedures to obtain sufficient assurance that the buildings are accounted for at fair value as at 31 December 2005, thus we qualify for the fair value of the buildings.

Investment in associate UAB Girių Bizonas is accounted for using the equity method. The calculation of adjustment as to the equity method was based on the un-audited accounts of UAB Girių Bizonas for the year ended 31 December 2005, thus we have to qualify for the value of the investment.

In our opinion, except for the possible effects of the matters referred to in the preceding paragraphs, the financial statements give a true and fair view of the financial position of AB Vilniaus Baldai 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.

Report on the Company's activities is presented separately from the financial statements. Following the Lithuanian legislation, we performed a review of the report on the Company's activities for the year 2005 and have not noticed any significant discrepancies between the report on activities and the financial statements presented herein. Upon completion of the review, we issued a separate review report, dated 4 April 2006, on the report on the Company's activities to which we refer.

Vilnius, 4 April 2006
KPMG Baltics UAB

Leif Rene Hansen
Danish State Authorized
Public Accountant

Ieva Voverienė
Certified Auditor

Income statement

	Note	2005	2004
		Litas'000	Litas'000
Turnover	2	110,849	100,472
Production costs		(97,093)	(81,096)
Gross profit		13,756	19,376
Distribution expenses	3	(1,756)	(1,957)
Administrative expenses	4	(5,547)	(7,580)
Other operating expenses, net	5	(341)	249
Operating profit		6,112	10,088
Financial costs, net	6	(1,654)	(248)
Share of profit (loss) of associate	10	(208)	0
Profit before tax		4,250	9,840
Profit tax	7	(804)	(1,786)
Net profit for the year		3,446	8,054
Earnings per share	8	0,89	2,07

The notes set out on pages 9 to 25 form an integral part of these financial statements.

Balance sheet

	Note	31 December 2005	31 December 2004
		Litas'000	Litas'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	68,939	58,538
Intangible assets		419	254
Investments	10	24,804	752
Total non-current assets		94,162	59,544
Current assets			
Inventories	11	14,325	11,433
Trade receivables		6,998	5,598
Other receivables	12	2,811	3,039
Cash and cash equivalents	13	8	258
Total current assets		24,142	20,328
TOTAL ASSETS		118,304	79,872
EQUITY AND LIABILITIES			
Capital and reserves	14		
Share capital		15,545	15,545
Revaluation reserve		8,773	8,987
Legal reserve		1,049	637
Retained earnings		10,064	10,684
Total capital and reserves		35,431	35,853
Non-current liabilities			
Deferred tax liability	15	2,046	2,261
Interest bearing loans and borrowings	16	53,435	16,590
Total non-current liabilities		55,481	18,851
Current liabilities			
Interest bearing loans and borrowings	16	11,559	1,700
Trade creditors		12,894	20,114
Other creditors	17	2,939	3,354
Total current liabilities		27,392	25,168
Total liabilities		82,873	44,019
TOTAL EQUITY AND LIABILITIES		118,304	79,872

The notes set out on pages 9 to 25 form an integral part of these financial statements.

Statement of changes in shareholders' equity

LTL'000	Share capital	Legal reserve	Revaluation reserve	Retained earnings	Total
Capital and reserves at 31 December 2003	15,545	326	9,482	6,828	32,181
Adjustment to opening balance			(495)		(495)
Dividend				(3,887)	(3,887)
Transfer to legal reserve		311		(311)	0
Net profit for 2004				8,054	8,054
Capital and reserves at 31 December 2004	15,545	637	8,987	10,684	35,853
Reverse of revaluation reserve			(232)	232	0
Change in deferred tax liability			18		18
Dividend				(3,886)	(3,886)
Transfer to legal reserve		412		(412)	0
Net profit for 2005				3,446	3,446
Capital and reserves at 31 December 2005	15,545	1,049	8,773	10,064	35,431

The notes set out on pages 9 to 25 form an integral part of these financial statements.

Cash flow statement

Litas'000	2005	2004
Result after tax	3,446	8,054
Adjustments for:		
Depreciation and amortization	6,862	5,142
Property, plant and equipment sold, written off, etc.	0	867
Deferred taxation	(197)	0
Provision for obsolete inventories	0	(47)
Provision for doubtful receivables	0	(8)
Accrual for current taxation	1,000	1,786
Vacation reserve	295	(221)
Share of profit (loss) of associate	208	0
Financial income and expenses	1,654	248
Net cash inflow from ordinary activities before any change in working capital	13,268	15,821
Change in trade and other receivables	(1,172)	(1,725)
Change in inventories	(2,892)	(1,809)
Change in trade creditors and other creditors	(6,789)	10,607
Net cash inflow from ordinary activities	2,415	22,894
Profit tax paid	(2,874)	(398)
Net cash inflow from operating activities	(459)	22,496
Acquisition of property, plant and equipment	(17,141)	(24,272)
Acquisition / sale of investments	(24,260)	(1,751)
Capitalization of intangible fixed assets	(333)	(193)
Disposal of property, plant and equipment	46	441
Dividends, interest received	0	33
Net cash outflow from investing activities	(41,688)	(25,742)
Dividend paid	(3,886)	(3,886)
Loans received	47,154	7,687
Interest paid	(1,371)	(399)
Net cash inflow/(outflow) from financing, net	41,897	3,402
Net cash inflow/outflow from operating activities, investing activities and financing	(250)	156
Cash and cash equivalents at 1 January	258	102
Cash and cash equivalents at 31 December	8	258

The notes set out on pages 9 to 25 form an integral part of these financial statements.

Notes to the annual accounts

1 Summary of significant accounting policies and practises

The joint stock company AB Vilniaus Baldai (the Company) is a publicly listed company domiciled in Lithuania. The Company's shares are traded on the Official List of the National Stock Exchange of Lithuania.

The Company is involved in the manufacture of furniture. As at 31 December 2005, the Company employed 1,096 employees (2004: 981 employee).

The major shareholder of the Company is AB Invalda, a publicly listed company incorporated in Lithuania, which owns 66.72% of the share capital.

The financial statements were authorized for issue by the directors on 4 April 2006.

Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the European Union.

Basis of preparation

The financial statements are presented in Litas, rounded to the nearest thousand. Litas is the functional and reporting currency of the company. The financial statements have been prepared from the accounting records maintained in accordance with Lithuanian laws and regulations.

The financial statements are prepared on the historical cost basis, except that the buildings are revalued to fair value based on independent appraisal reports.

The preparation of the financial statements in accordance with IFRS 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 estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Notes to the annual accounts

The accounting policies of the Company as set out below are consistent with those of the preceding year.

Foreign currency

Transactions in foreign currencies are translated to Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Property, plant and equipment

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

The buildings are revalued to fair value based on independent appraisal reports. The revaluation of buildings is performed periodically over 5 years. Any surplus arising on the revaluation is recognized directly in a revaluation reserve within equity. The buildings are stated at revaluated value less accumulated depreciation and impairment losses.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

- buildings 40 years
- plant, machinery and equipment 6 - 10 years
- motor vehicles 5 - 10 years
- other assets 2 - 6 years

Notes to the annual accounts

Intangible assets

Intangible assets, comprising computer software, that are acquired by the Company are stated at cost less accumulated amortization. Computer software is amortized using the straight-line method over a 3 year period.

Investments into associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. The financial statements include the Company's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Trade and other receivables

Trade and other receivables are stated at their cost less provision for possible losses.

Inventories

Raw materials are stated at the lower of cost or net realizable value, less provision for slow moving and obsolete inventories.

Work in progress is stated at cost comprising purchase price of raw materials and consumables, direct labor and an appropriate share of production overheads.

Finished goods are stated at standard selling prices adjusted for their average expected contribution margin.

Cost is determined by the first-in, first-out (FiFo) method.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and call deposits.

Notes to the annual accounts

Impairment

The carrying amounts of the Company'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 intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Calculation of recoverable amount

The recoverable amount is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to the 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.

Dividends

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

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Revenue

Revenue from sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement where delivery has been effected by the balance sheet date. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Notes to the annual accounts

Production costs

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs of imported products include the purchase price and transportation costs corresponding to the turnover of the year.

Corporate income tax

Income tax on the profit or loss for the year comprises current and deferred taxes. Income tax is recognized in the income statement except for the extent that it relates to items recognized directly to equity, in which case it is recognized 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 amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Segment reporting

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

Notes to the annual accounts

2 Segment reporting

The Company's only business segment (basis for primary reporting format) is the manufacture of furniture. Segment information is presented in respect of the Company's geographical segments (secondary reporting format).

Revenues and total assets by geographical segments are as follows:

	Sales		Total assets	
Litas'000	2005	2004	2005	2004
Lithuania	2,829	3,958	118,304	79,872
Other European countries	108,020	96,514	0	0
	110,849	100,472	118,304	79,872

	2005	2004
	Litas '000	Litas '000
3 Distribution expenses		
Salaries and social insurance	964	970
Exporting costs (transportation)	232	232
Advertising	102	214
Depreciation	145	148
Business trips	53	91
Other	260	302
	1,756	1,957

Notes to the annual accounts

		2005	2004
		Litas '000	Litas '000
4	**Administrative expenses**		
	Salaries and social insurance	2,901	2,456
	Repairs and maintenance costs	216	1,384
	Operational taxes	33	832
	Depreciation	493	562
	Professional services	341	371
	Utilities and communications	467	276
	Tantiemes	180	180
	Amortization	146	140
	Business trips	39	115
	Insurance	132	85
	Training and other costs of employment	62	52
	Bank services	92	46
	Other	445	1,081
		5,547	7,580

		2005	2004
5	**Other operating expenses, net**		
	Rental income	233	181
	Tax related expenses	(633)	0
	Sale of waste	(10)	42
	Doubtful receivables written off	(110)	(37)
	Other gains and losses	179	63
		(341)	249

		2005	2004
6	**Financial costs, net**		
	Interest expense on bank borrowings	1,673	(399)
	Amortization of deferred income	0	95
	Foreign exchange transaction gain, net of loss	20	(7)
	Other gains and losses	(39)	63
		1,654	(248)

Notes to the annual accounts

		2005	2004
		Litas '000	Litas '000
7	**Profit tax**		
	Current tax	1,000	1,786
	Profit tax corrections of the previous periods	0	87
	Change in deferred taxation	(196)	(87)
	Profit tax for the period	804	1,786

The reconciliation of effective tax rate is as follows:

	2005	2004
Result before tax	4,250	9,840
Permanent differences:		
Non-deductible expenses	491	472
Temporary differences:		
Change in provisions and accruals	1,928	1,594
Taxable profit	6,669	11,906
Profit tax at rate of 15%	1,000	1,786

The movement on deferred tax liability account is as follows:

Litas '000	2005	2004
1 January	2,261	2,348
Change in deferred tax liability	(215)	(87)
Deferred tax at 31 December	2,046	2,261

8 **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.

Litas '000	2005	2004
Net profit for the year	3,446	8,054
Weighted average number of shares in issue (thousand)	3,886	3,886
Basic earnings per share (in Litas)	0,89	2,07

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

Notes to the annual accounts

9 Property, plant and equipment

Litas'000	Buildings	Machinery and equipment	Motor Vehicles	Other non-current assets	Construc-tion in progress	Total
Cost at 1 January	30,676	46,186	1,191	2,521	763	81,337
Additions		14,723	194	768	1,485	17,170
Disposals	(43)	(273)	(4)	(155)	0	(475)
Reclassifications	1,479	768	0	(31)	(2,216)	0
Cost at 31 December	32,112	61,404	1,381	3,103	32	98,032
Depreciation at 1 January	7,029	14,168	352	1,252	0	22,801
Depreciation for the year	857	5,381	124	354	0	6,716
Disposals	(22)	(269)	(4)	(129)	0	(424)
Reclassifications		(6)	0	6	0	0
Depreciation at 31 December	7,864	19,274	472	1,483	0	29,093
Net book value at 31 December	24,248	42,130	909	1,620	32	68,939
Net book value at 1 January	23,649	32,018	841	1,267	763	58,538
Depreciated over (in years)	40	6-10	5 - 10	2 - 6		

Depreciation has been allocated as follows:

Litas'000	2005	2004
Production and production development costs	5,860	4,432
Selling, administrative and other costs	856	710
Total	6,716	5,142

Notes to the annual accounts

Security

At 31 December 2005, property, plant and equipment with a carrying amount of Litas 54,754 thousand (2004: Litas 40,866 thousand) are pledged to secure bank loans.

Revaluations

In 1998 and 1999, the independent valuators from UAB Matininkai made a valuation of all the Company's buildings in order to estimate their market value. Based on this evaluation, the Company recorded an increase in the value of the buildings of Litas 11,319 thousand, and the related revaluation reserve was created under the equity. There were no independent valuations of the buildings performed since 1999, consequently, there were no revaluation of the buildings accounted for since 1999.

Had the buildings been carried under the cost model (i.e., not revalued), the carrying amount of the buildings as at 31 December 2005 would amount to Litas 14,699 thousand.

		2005	2004
		Litas '000	Litas '000
10	**Investments**		
	Investment in associate UAB Giriu Bizonas	24,792	750
	Other	12	2
	Net book value at 31 December	24,804	752

In July 2005 AB Vilniaus Baldai acquired 25% shareholding in the raw chipboard production company UAB Giriu Bizonas, which is one of major suppliers of AB Vilniaus Baldai. Total consideration paid for the shares was Litas 25,000 thousand, and the book value of 25% share of the net assets UAB Giriu Bizonas amounted to Litas 15,353 thousand at the acquisition date.

The Company's share of post acquisition total recognized loss in the associated company UAB Giriu Bizonas for the year ended 31 December 2005 was Litas 208 thousand.

Summary of the unaudited financial information on UAB Giriu Bizonas – 100 per cent:

Litas '000	2005 unaudited accounts
Assets	139,742
Liabilities	79,493
Equity	60,249
Revenues	84,249
Profit for the year	406

Notes to the annual accounts

		2005	2004
		Litas '000	Litas '000
11	**Inventories**		
	Raw materials	8,956	7,006
	Work in progress	2,324	2,002
	Finished goods	2,908	2,286
	Goods for resale	137	139
	Net book value at 31 December	14,325	11,433

Raw materials consist of wood, accessories, plastics, chemical materials and other materials used in production.

12	**Other receivables**		
	Refund of VAT	748	1,248
	Loan to Girių Bizonas UAB	750	1,500
	Profit tax prepayment	675	0
	Other receivables and deferred charges	638	291
	Net book value at 31 December	2,811	3,039

On 4 May 2004, the Company issued an interest-free loan of Litas 3,000 thousand to one of the major suppliers UAB Girių Bizonas. The loan matures on 5 July 2006. The balance of the loan as at 31 December 2005 was equal to Litas 750 thousand.

13	**Cash and cash equivalents**		
	Cash at bank	5	248
	Cash in hand	1	8
	Cash in transit	2	2
	Cash and cash equivalents at the end of the year	8	258

At 31 December 2005, cash at bank and future inflow into the banks are pledged to secure bank loans (refer Note 18).

Notes to the annual accounts

14 Capital and reserves

Share capital

The share capital comprises 3,886,267 ordinary shares with a nominal value of Litas 4 each and the total share capital of Litas 15,545,068.

Legal reserve

Legal reserve of Litas 1,049 thousand is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net profit, if available for distribution, are required until the legal reserve reaches 10% of the authorized capital.

Revaluation reserve

The revaluation reserve relates to the cumulative increase in the fair value of the buildings. See Note 9 for further comments.

15 Deferred tax liability

	2005		2004	
Litas'000	Temporary diff.	Deferred tax *	Temporary diff.	Deferred tax (15%)
Depreciation	(15)	(3)	(36)	(5)
Receivables provision	(47)	(7)	(47)	(7)
Accrued costs	(1,037)	(197)	(742)	(111)
Other	(60)	(9)	(60)	(9)
Revaluation of non-current assets	9,548	1,451	9,798	1,469
Investments	5,067	811	6,160	924
Net book value at 31 December	13,456	2,046	15,073	2,261

*) Income tax rate applicable for 2006 will be 19%, for 2007 it will be 18%, and starting 2008 the rate will be 15%.

Notes to the annual accounts

		2005	2004
		Litas '000	Litas '000
16	**Interest bearing loans and borrowings**		
	Non-current liabilities		
	Long-term, secured financing facility	53,435	16,590
	Net book value at 31 December	53,435	16,590
	Current liabilities		
	Current portion of secured loans	11,559	1,700
	Net book value at 31 December	11,559	1,700

Terms and repayment schedule

On 25 February 2003, the Company signed a credit line contract with AB Sampo Bankas for refinancing of liabilities to AB Vilniaus Bankas, financing of working capital and obtaining tender guarantees. On 13 May 2005, the Company changed terms of the credit line contract. The maximum amount of the credit line is Litas 14,474 thousand, the maturity date is 25 February 2007. The annual interest on the credit is equal to 6 months VILIBOR + 1.5%.

On 3 September 2004, the Company extended a credit agreement with AB Sampo Bankas, according to which a loan of EUR 2,540 thousand was provided for refinancing of liabilities to UAB Vilniaus Banko Lizingas, refinancing of the outstanding loan liability to AB Sampo Bankas and investments into production machinery. The outstanding amount as at 31 December 2005 is EUR 2,048 thousand. Maturity date is 25 February 2010. The annual interest on the credit is equal to 6 months EURIBOR + 1.3%.

On 28 December 2004, the Company signed a credit agreement with AB Sampo Bankas. According to this agreement, the Company was granted a credit limit of EUR 4,650 thousand for financing of investments into production buildings and machinery. Maturity date is 28 December 2011, the annual interest on the credit is equal to 6 months EURIBOR + 1.5%.

On 8 August 2005, the Company signed a supplemental agreement with AB Sampo Bankas and AS Sampo Pank Estonia. According to this agreement, the Company was granted additional credit limit of EUR 4,924 thousand. Sampo Pank credit part purpose: credit amount up to EUR 2,390 thousand disbursement for repayment part of the loan granted by AB Invalda will be made directly to AB Invalda; credit amount up to EUR 2,534 thousand disbursement for acquisition of 25% of Giriu Bizonas share capital. Maturity date is 1 July 2012, the annual interest on the credit is equal to 6 months EURIBOR + 1.5%.

Notes to the annual accounts

On 8 August 2005, the Company signed a loan subordination agreement with AB Sampo Bankas, AS Sampo Pank and AB Invalda. According to the agreement, the Company was granted a credit limit of Litas 8,000 thousand. The credit and interest shall not be repaid to the Creditor (AB Invalda) until the liabilities to AB Sampo Bankas and AS Sampo Pank according to the supplemental agreement are not fully covered. The annual interest on the credit is fixed to 5%.

On 20 May 2005, the Company signed a credit agreement with AB Invalda. According to the agreement, the Company was granted a credit limit of Litas 2,593 thousand for financing working capital. Maturity date is 31 December 2006, the annual interest on the credit is fixed to 5%.

Financial liabilities are payable as follows:

Litas '000	Total payable	In 2006	In 2007-2008	In 2009-2011
Overdraft of Litas 14,474 thousand	14,276	4,776	9,500	0
Loan of EUR 4,650 thousand	16,056	1,784	1,784	12,488
Loan of EUR 4,950 thousand	17,001	708	2,833	13,460
Loan of EUR 2,048 thousand	7,070	1,700	1,700	3,670
Loan of Litas 8,000 thousand	8,000	0	0	8,000
Loan of Litas 2,591 thousand	2,591	2,591	0	0
Total	64,994	11,559	15,817	37,618

As a security for the pay-back of the loans, the Company pledged its buildings and machinery for the total book value of Litas 54,754 thousand as at 31 December 2005, as well as current and future cash inflows into the Company's bank accounts with AB Sampo Bankas.

		2005	2004
		Litas '000	Litas '000
17	**Other creditors**		
	Profit tax liability	0	1,199
	Vacation reserve	983	631
	Social insurance payable	522	391
	Operational taxes payable	66	106
	Advances	4	44
	Dividend payable for the previous year	37	37
	Other payables and accrued charges	1,327	946
	Net book value at 31 December	2,939	3,354

Notes to the annual accounts

18 Contingencies

The Company has pledged its fixed assets with a book value of Litas 54,754 thousand as at 31 December 2005 (2004: Litas 40,866 thousand) to secure the bank loans.

As at 31 December 2005, cash at bank and future inflow into the bank are pledged to secure the bank loans.

	2005	2004
	Litas '000	Litas '000
19 Staff costs		
Production and product development costs	20,049	14,835
Selling, administrative and other expenses	3,692	3,289
	23,741	18,124

Staff costs include wages and salaries, Sodra and emoluments for the management of Litas 1,248 thousand (2004: Litas 1,138 thousand).

The Company had 1,097 employees at the end of 2005 (2004: 1,000 employees).

20 Related party transactions

On 7 July 2005, 116,664 ordinary registered shares of new emmission of UAB Giriu Bizonas with a nominal value of 100 Litas each were acquired for a total nominal value of 11,666,400 Litas. The number of shares acquired comprises 25% of total company's shares.

Other related party transactions in 2005 were as follows (in Litas'000):

Sold to:

UAB Invalda Real Estate	Production sold	111
UAB Valmeda	Production sold	1
UAB Vilmakas	Production sold	1
AB Minija	Consultation services	29
Other	For services	2
Total		**144**

Purchased:

AB Invalda	Interest expenses	302
UAB Invalda Real Estate	Fixed phone costs recharged	154
AB Finasta FMI	For services	25
UAB Invalda Service	For services	5
Total		**486**

Notes to the annual accounts

Payables as at 31 December 2005

AB Invalda	Loan and accrued interest	10,893
UAB Invalda Real Estate	Fixed phone costs recharged	13
AB Finasta FMI	For services	2
Total		**10,908**

Receivables as at 31 December 2005

UAB Girių Bizonas	Loan	750
UAB Minija	For consultation services	34
AB Finasta FMI	For services	34
Total		**818**

21 Risk management

Credit risk

The sales to IKEA Trading, the main customer of the Company, made up approximately 75% in the year 2005 (82% in 2004).

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.

Foreign exchange risk

The Company incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than EUR. The currency giving rise to this risk is primarily US Dollars.

Accounts receivable and payable in foreign currencies as at 31 December 2005 could be specified as follows:

LTL'000	Euro	USD	SEK	Other
Trade debtors	1,993	240		0
Cash	0	3		3
Borrowings	(40,127)	0		0
Trade creditors	(2,187)	(356)	(700)	0
	(40,321)	(113)	(700)	3

Notes to the annual accounts

Interest rate risk

The Company's borrowings are subject to variable interest rates, related to VILIBOR and EURIBOR.

As at 31 December 2005, the Company did not use any financial instruments to hedge its interest rate risks.

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AB Vilniaus Baldai

Report on the Company's activities for the year 2005 including auditor's report

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Auditor's report regarding report on the Company's activities

We have reviewed the accompanying report on the activities of AB Vilniaus Baldai (hereinafter the Company) for the year 2005. This report and the assumptions for operational plans and forecasts are the responsibility of the Company's management. Our responsibility is, based on our review, to express an opinion whether the information contained in the report on the Company's activities correspond to the statutory financial statements.

Our review was limited to investigate that there are no material misstatements contained in the report of the Company's activities if to compare with the statutory financial statements. We have not reviewed the management's estimations and section concerning future plans and forecasts, as the audit of the Company's financial statements is not aimed at such examination, and, consequently, we do not express an opinion on the estimations, future plans and forecasts.

Based on our review, we can declare that we have not noticed any material misstatements contained in the report on the Company's activities for the year 2005 if to compare with the Company's statutory financial statements for the year 2005 on which we expressed a qualified opinion in our auditor's report dated 4 April 2006.

Vilnius, 4 April 2006
KPMG Baltics, UAB

Leif René Hansen
Danish State Authorized
Public Accountant

Ieva Voverienė
Certified Auditor

Report on the Company's activities for the year 2005

Review of AB Vilniaus Baldai activities during the financial year

AB Vilniaus Baldai is one of the largest production companies in Lithuania where furniture production traditions of many years are successfully co-coordinated with innovatory business ideas. The company's success is related to reasonable investments to the development of the production, consistent growth by establishing new working places, systematic work by investigating demands of consumers and searching for efficient solutions to satisfy them.

The year 2005 was special for the Company. In spring an expansion of production capacities started in 2004 was finalized. A new furniture production workshop which allows to increase significantly the scopes of the furniture production and sales and in such way to satisfy demands of consumers more flexibly, i.e. to produce as much diverse furniture as possible for offices, bed rooms, young people, ante-rooms, frame furniture from laminated plate of wooden chips and planed veneer, was opened.

The Company for production of furniture from laminated plate acquired equipment from a bankrupted factory in England, and the new workshop has been installed in the purchased premises of the liquidated company AB Vilmakas. The premises of the new workshop were renovated, they were reconstructed, and spongy shield production line was fully assembled by acquiring new equipment from well known European producers such as Burkle, Homag, Wikoma and other. The total production area of the Company amounts to 48 thousand sq. meters.

The company AB Vilniaus Baldai remained a member of the Lithuanian Furniture Association "Lietuvos Mediena" as well as a member of the Chamber of Trade, Industry and Crafts in Vilnius.

In 2005, the major part of the production of AB Vilniaus Baldai is exported to Sweden, France, Belgium, Great Britain, Canada, USA, The Netherlands, Italy, Austria, Malaysia and the Baltic States.

Ownership and capital structure

In 2005 the structure of the main shareholders of the Company did not change. The major shareholder is AB Invalda, holding 2,592,888 or 66.7 % of AB Vilniaus Baldai shares. All shares are ordinary shares with a nominal value of 4 Litas each. As at 31 December 2005 price per share was 36 Litas (31 March 2006: 35 Litas).

The structure of the Company's management bodies did not change and comprises of general shareholders' meeting, Board and Head of the Company.

Sales

AB Vilniaus Baldai when producing frame furniture is orientated towards mass production. Production of the company is sold through its trading partners, the main requirement for which is to ensure significant sales with not wide assortment. The most successful co-operation is with the Swedish concern IKEA, having one of the widest retail networks in the world. Due to the same reason co-operation with one of the major furniture wholesalers Great Britain company NEXT was started.

From the middle of 2005 sales in local market are carried out through trade partner UAB Baldai Plius.

Production / investments

Capital investments (acquisitions of assets) amounted to 17.2 million Litas in 2005 (17.7 million Litas in 2004). The purpose of the investments was development of the company and opening of a new workshop, i.e. for acquisition and putting into operation of furniture production equipment.

In the budget for 2006, an investment of 2 million Litas was approved.

Quality and environment protection

AB Vilniaus Baldai, for several years in turn, has been successfully operating according to the certified quality management system complying with the requirements of the ISO 9001 standard. The company operates seeking to improve quality of furniture, analyses and evaluates wishes of consumers, looks for means and methods to have the production process as effective, flexible as possible and tries to satisfy the needs of the clients.

A special attention is paid to environment protection; therefore the environment protection management system has been established in the company which complies with requirements of the ISO 14001 standard. The essence of the system is management of the environment protection and its constant improvement. The company works in order to make the production ecological, to manage the influence of the materials and raw materials used on the environment, to ensure that suppliers of products and services were keeping to the requirements of the environment protection management.

Personnel

During 2005, number of working places increased in the company due to the establishment of the new production workshop. At the end of 2005, the average number of employees amounted to 1,086, and as at 31 December 2004 the number of employees comprised 981.

Constantly increasing production capacities and sales of the company allow increasing salaries which during 2005 increased approximately by 7.5 per cent. Every year attention and means of the company are directed to improvement of working conditions.

Financial results

Sales of the company in 2005, compared to the previous years, increased by 10.3 % and reached 110.8 million Litas. The main trading partner, as in the previous years, remained the Swedish company IKEA.

Gross profit amounts to 13.8 million Litas. Established and successfully operating new production lines allowed to increase the scope of the production.

Audited profit before taxes of the accounting year amounts to 4.3 million Litas (9.8 million in 2004).

The main financial ratios:

Amounts, in million Litas	2005	2004	2003
Sales	110.8	100.5	88.5
Gross profit	13.8	19.4	16.3
Gross profitability	12.4%	19.3%	18.4%
Net profit after taxes	3.4	8.1	6.2
Total assets	118.3	79.9	56.3
Capital investments	17.2	24.2	7.4
Return on equity	9.7%	22.8%	19.6%

Tangible non-current assets

Depreciation of tangible non-current assets amounted to 6.7 million Litas in 2005 (in 2004:. 5.1 million Litas).

On 13 May 2005 the Company signed a supplemental agreement to the credit line contract of 25 February 2003 with AB Sampo Bankas. The maximum amount of the credit line is Litas 14,474 thousand, the maturity date is 25 February 2007. The annual interest on the credit is equal to

6 months VILIBOR + 1.5%. The purpose of the credit is refinancing of the loan, financing of working capital and obtaining tender guarantees.

On 8 August 2005, the Company signed a credit agreement with AB Sampo Bankas. The maximum credit limit is 4,650 thousand EUR. The purpose of the credit is for investments into buildings, for financing of buildings and equipment, as well as for refinancing of some investments. The annual interest on the credit is 6 months Euribor+1.5%. The maturity of the credit is 28 December 2011. The loan is repaid by quarterly installments, with the specified last payment being of 1,679 thousand EUR.

On 8 August 2005, the Company signed a credit agreement with AS Sampo Pank. Maximum credit limit is 4,924 thousand EUR. The purpose of the credit is for acquisition of 25% of UAB Girių Bizonas shares. The interest paid for the credit amounts to 6 months Euribor+1.5%. The maturity of the loan is 1 July 2012. The loan is repaid by quarterly installments.

Long-term loans

Long-term loans as at 31 December 2005 comprised of:

Provider of loan	Purpose of the loan	Balance of the loan as at 31 12 05 Litas'000	Balance of the loan as at 31 12 04 Litas'000
AB Sampo Bankas	Working capital	14,275	6,412
AB Sampo Bankas	Refinancing of loans	5,525	5,525
AB Sampo Bankas	Financing of acquisition of production equipment	3,246	3,246
AB Sampo Bankas	Financing of acquisition of production equipment	16,055	3,107
AB Sampo Bankas	Acquisition of 25% of UAB Girių Bizonas shares	17,002	-
AB Invalda	Acquisition of 25% of UAB Girių Bizonas shares	7,998	-
AB Invalda	Working capital	2,593	-
Less current portion of long-term loans		(1,700)	-
Loan amount less current year portion		64,994	18,290

Subsidiaries and own shares acquired or transferred during the financial year as well s number of shares I other companies and substantiation of the acquisitions and transfers

In 2005, the joint stock company Vilniaus Baldai did not acquire own shares.

The Company has neither branches nor representative offices.

On 7 July 2005, 116,664 ordinary registered shares of new emission of UAB Girių Bizonas (identification code 165746963) with a nominal value of 100 Litas each were acquired for a total nominal value of 11,666,400 Litas. The number of shares acquired comprises 25% of total company's shares. This is a strategic investment ensuring a stable supply of quality low price raw material - plates of wooden chips.

As to share sale -purchase agreement of 17 November 2005 the Company acquired 100 ordinary registered shares of UAB Ari-Lux (identification 120989619) for a total nominal value of 10,000 Litas. The acquired shares comprise 100% shareholding of the company.

The most significant events

There were no events at the end of the financial year which could have significant influence on the financial statements.

Plans and forecasts for the Company's activities

Joint stock company Vilniaus Baldai plans to use maximum of the workshop capacities, increase production volumes, expand assortment, look for new clients in Eastern and Western markets. It is planned to achieve sales amounting to 140 million Litas during 2006. Continue improvement of working conditions, increase salaries. AB Vilniaus Baldai goal is to retain the position of the leader of furniture production.

Chairman of the Board Alvydas Banys