

**AB VILNIAUS VINGIS**  
**Annual Accounts for the year**  
**2005**

## Balance sheet

Litas	Note	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	34,528,718	48,630,576
Intangible assets	14	473,913	928,848
Investments	15	60,000	0
Prepayment for the increase of share capital of the subsidiaries	15	6,691,057	0
Deferred tax assets	11	<u>0</u>	<u>352,074</u>
<b>Total non-current assets</b>		<u>41,753,688</u>	<u>49,911,498</u>
<b>Current assets</b>			
Inventories	16	10,653,983	16,507,483
Trade receivables	17	10,710,622	16,570,198
Income tax receivable	12	1,422,466	1,674,044
Fair value of the derivative financial instrument	24	1,349,387	0
Other receivables	18	1,155,260	1,271,915
Cash and cash equivalents	19	<u>1,230,240</u>	<u>55,400</u>
<b>Total current assets</b>		<u>26,521,958</u>	<u>36,079,040</u>
<b>TOTAL ASSETS</b>		<u>68,275,646</u>	<u>85,990,538</u>

General director

Vaclovas Šleinota

## Balance sheet

Litas	Note	<u>2005</u>	<u>2004</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	20	36,492,420	36,492,420
Share premium		2,211,200	2,211,200
Reacquired own shares	20	-3,946,668	-3,946,668
Legal reserve	20	2,085,956	1,905,278
Other reserves (distributable)	20	4,546,943	14,719,117
Retained earnings		<u>6,314,745</u>	<u>1,917,624</u>
<b>Total equity</b>		<u>47,704,596</u>	<u>53,298,971</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	22	<u>7,167,553</u>	<u>21,654,641</u>
<b>Total non-current liabilities</b>		<u>7,167,553</u>	<u>21,654,641</u>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	22	3,053,500	102,198
Trade payables		8,244,776	8,966,417
Other payables	23	<u>2,105,221</u>	<u>1,968,311</u>
<b>Total current liabilities</b>		<u>13,403,497</u>	<u>11,036,926</u>
<b>Total liabilities</b>		<u>20,571,050</u>	<u>32,691,567</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>68,275,646</u></u>	<u><u>85,990,538</u></u>
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General director

Vaclovas Šleinota

## Profit and loss account for the year

Litas	Note	2005	2004
Revenue	4	81,243,535	122,732,724
Cost of sales		-77,687,255	-102,234,848
<b>Gross profit</b>		3,556,280	20,497,876
Distribution expenses	5	-1,867,292	-3,866,776
Administrative expenses	6	-9,446,618	-13,421,219
Other operating income	8	5,383,114	3,940,616
Other operating expenses	8	-3,285,055	-2,306,468
<b>Operating profit before financing costs</b>		-5,659,571	4,844,029
Adjustment to fair value of derivative financial instruments	24	1,349,387	0
Financial income	9	154,578	467,164
Financial expenses	9	-1,090,429	-1,061,557
<b>Profit before tax</b>		-5,246,035	4,249,636
Corporate income tax	10	-348,340	-578,347
<b>Net profit for the year</b>		-5,594,375	3,671,289
Earnings per share	21	n/a	0.41

General director

Vaclovas Šleinota

## Cash flow statement

Litas	2005	2004
<b>Cash flow from operating activities</b>		
Result before tax	-5,246,035	4,249,636
Adjustments for:		
Depreciation and amortisation	8,858,430	8,834,524
Foreign exchange gains	152,761	389,652
Foreign exchange losses	-438,227	-370,647
Result on disposals of non current assets	-3,330	-41,326
Write down on inventories	610,422	794,000
Impairment of doubtful receivables	-3,120	-85,120
Gain on revaluation of derivatives to fair value, recognised in income statement	-1,349,387	0
Loss on derivatives recognised in equity	0	-57,120
Financial income	-152,761	-467,164
Financial expenses	1,034,013	1,028,443
Operating profit before changes in working capital	3,462,766	14,274,878
Change in trade and other receivables	5,979,351	5,950,939
Change in inventories	5,243,078	-2,484,783
Change in trade creditors and other creditors	-584,731	-6,187,218
Cash generated from the operations	14,100,464	11,553,816
Interest received	0	77,512
Interest paid	-595,786	-657,796
Corporate income tax paid / returned	255,312	-3,630,804
<b>Net cash from operating activities</b>	<b>13,759,990</b>	<b>7,342,728</b>
<b>Cash flow from investing activities</b>		
Proceeds from sale of plant and equipment	17,357	329,339
Acquisition of subsidiaries, net of cash acquired	-60,000	0
Acquisition of property, plant and equipment	-935,181	-8,421,709
Capitalisation of intangible fixed assets	-71,540	-788,286
<b>Net cash from investing activities</b>	<b>-1,049,364</b>	<b>-8,880,656</b>
Carried forward		
Litas	2005	2004
Brought forward		
<b>Cash flows from financing activities</b>		
Acquisition of own shares	0	-2,975,000
Repayment of borrowings	-14,226,920	-8,100,675
Repayment of finance lease liabilities	-102,164	-43,634
Proceeds of borrowings	2,793,298	21,394,474
Dividends paid	0	-10,796,747
<b>Net cash from financing activities</b>	<b>-11,535,786</b>	<b>-521,582</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,174,840</b>	<b>-2,059,510</b>
Cash and cash equivalents at 1 January	55,400	2,114,910
<b>Cash and cash equivalents at 31 December</b>	<b>1,230,240</b>	<b>55,400</b>

General director

Vaclovas Šleinota

## Statement of changes in shareholders' equity for the year

Litas	Share capital	Share premium	Own shares	Legal reserve	Other reserves	Retained earnings	Total
Equity at 31 December 2003	36,492,420	2,211,200	-971,668	1,438,042	7,733,099	16,553,456	63,456,549
Dividend						-10,796,747	-10,796,747
Transfer to reserves				467,236	7,043,138	-7,510,374	0
Acquisition of own shares			-2,975,000				-2,975,000
Movement in hedging reserve					-57,120		-57,120
Net income for 2004						3,671,289	3,671,289
Equity at 31 December 2004	36,492,420	2,211,200	-3,946,668	1,905,278	14,719,117	1,917,624	53,298,971
Transfer of reserves				180,678	-10,172,174	9,991,496	0
Net income for 2005						-5,594,375	-5,594,375
Equity at 31 December 2005	<u>36,492,420</u>	<u>2,211,200</u>	<u>-3,946,668</u>	<u>2,085,956</u>	<u>4,546,943</u>	<u>6,314,745</u>	<u>47,704,596</u>

General director

Vaclovas Šleinota

## Notes to the annual accounts

### 1 Summary of significant accounting policies and practises

The joint stock company AB Vilniaus Vingis (the Company) is a publicly listed company domiciled in Lithuania. The Company's shares were traded on the Official List of the National Stock Exchange of Lithuania (NSEL). As at 31 December 2005 the major shareholders were as follows:

	Shares	Shareholding
Management of AB Vilniaus Vingis:		
Vaclovas Šleinota	242,532	2.66%
Rimvydas Savickas	179,122	1.96%
Vladislovas Cybas (resigned in January 2006 from the Company's management)	170,462	1.87%
Darius Ožiūnas	101,406	1.11%
Valdas Petrauskas	132,377	1.45%
Mečislovas Šakalys	95,736	1.05%
Antanas Savickas	55,047	0.60%
Total AB Vilniaus Vingis management	976,682	10.70%
UAB Finasta investicijų valdymas	14,269	0.16%
UAB Finasta investicijų valdymas / CRE fund	793,440	8.70%
UAB Finasta investicijų valdymas / 3 pension funds	13,209	0.14%
UAB Finasta rizikos valdymas	14,400	0.16%
Total Finasta group companies	835,318	9.16%
Skandinaviska Enskilda Banken clients	1,852,711	20.31%
Hansabank (Estonia) clients	1,133,030	12.42%
AB Vilniaus Vingis	475,817	5.22%
Other shareholders	3,849,547	42.19%
	9,123,105	100%

As at 31 December 2005, the Company's Board includes three members from the management and two members from Finasta group companies.

The Company is involved in the manufacture of electronic components. The main products are deflection yokes and transformers. As at 31 December 2005, the Company employed 857 employees (2004: 2,125 employees). The Company dismissed 915 employees in 2005 year, to which leaving compensations of Litas 1,466 thousand (including social security contributions) were paid.

In October 2005, the Company established two 100% owned subsidiaries UAB Vilniaus Vingio Gija and UAB Vilniaus Vingio Mechanika with a registered capital of Litas 30 thousand each. There were no activities in the companies in 2005. The subsidiaries will

## **Notes to the annual accounts**

overtake the activities of former AB Vilniaus Vingis departments, which were producing plastic elements (UAB Vilniaus Vingio Gija) and tools and equipment (UAB Vilniaus Vingio Mechanika). Non-current assets, related to the activities of both subsidiaries were transferred to the subsidiaries on 13 December 2005 (for more details see note 15). The capital of the subsidiaries was increased by the non-current assets as at 15 January 2006.

Employees, which were working in former departments of AB Vilniaus Vingis, were employed in the established subsidiaries as of 1 January 2006. (UAB Vilniaus Vingio Gija – 276, UAB Vilniaus Vingio Mechanika – 136 employees).

### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

### **Basis of preparation**

The financial statements are presented in Litas. They are prepared on the historical cost basis except for derivative financial instruments, which are stated at their fair value.

The preparation of the financial statements in accordance with IFRS requires management to make judgements, 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 judgements 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies of the Company as set out below have been applied consistently and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRS and the introduction of new IFRS applicable as of 1 January 2005 which are described in Note 2.



## **Notes to the annual accounts**

### **Financial instruments**

#### ***Derivative financial instruments***

In 2004, the Company used derivative financial instruments to hedge its exposure to copper price risks arising from its operational activities. In 2005, the Company holds derivative financial instruments (copper swaps) for trading purposes.

Derivative financial instruments are recognised initially at fair value. As at the date of financial statements, derivative financial instruments are revaluated to the fair value as at that date.

For derivatives held for trading purposes and derivatives that do not qualify for hedge accounting, the gain or loss on their subsequent measurement at fair value is recognised in profit or loss.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

The cumulative gain or loss is removed from equity and included in the initial cost of the asset acquired at execution of the forecasted transaction. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

#### ***Other financial instruments***

Loans and receivables originated by the Company are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, loans and receivables originated by the Company are measured at amortised cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment, if any.

## **Notes to the annual accounts**

### ***Foreign currency transactions***

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the fair value was determined.

### ***Property, plant and equipment***

#### *Owned assets*

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### *Leased assets*

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

#### *Subsequent costs*

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

## **Notes to the annual accounts**

### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

The estimated useful lives are as follows:

- buildings 8 - 60 years
- plant, machinery and equipment 2 - 15 years
- motor vehicles 5 - 6 years
- other assets 2 - 8 years

### *Intangible assets*

#### *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, including design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources and is planning to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the related product over the period of the expected benefit. The amortization period varies from 1 to 3 years period.

#### *Other intangible assets*

Other intangible assets, comprising computer software, that are acquired by the Company are stated at cost less accumulated amortisation. Computer software is amortised using the straight-line method over a 1 -3 years' period.

## **Notes to the annual accounts**

### *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### *Inventories*

Inventories sold in the ordinary course of business are stated at the lower of cost and net realisable value. Other inventories are stated at the lower of cost and fair value less cost to sell. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, if it complies with the cash management policy.

### *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 assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### **Calculation of recoverable amount**

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective

## **Notes to the annual accounts**

interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *Reversals of impairment*

An impairment loss in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

### *Dividends*

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

### *Liabilities*

Liabilities are initially recognised at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortised cost on an effective interest method basis. Short-term liabilities are not discounted.

## **Notes to the annual accounts**

### ***Revenue***

#### *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

#### *Government grants*

Government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

### ***Expenses***

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

## **Notes to the annual accounts**

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date when it is declared and the entity's right to receive payments is established.

### ***Corporate income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### ***Segment reporting***

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

## **2 Change in accounting policies**

In late 2003 the IASB published a revised version of IAS 32 "Financial Instruments: Disclosure and Presentation", a revised version of IAS 39 "Financial Instruments:

## Notes to the annual accounts

Recognition and Measurement” and “Improvements to International Accounting Standards”, which made changes to 14 existing standards. In the first quarter of 2004 the IASB published IFRS 2 “Share-based Payments”, IFRS 3 “Business Combinations”, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and further amendments to IAS 39. In mid-2005 the IASB issued a further revision to IAS 39 regarding the Fair Value Option. Revised IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, amongst other matters, requires that changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. The Company adopted these effective from 1 January 2005.

Below we provide the discussion of the impact of the new standards, applicable to the Company.

### *Financial Instruments*

In accordance with IAS 39 requirements, the Company has reviewed its portfolio of financial instruments held at 1 January 2005 and has performed redesignation of these financial instruments into categories as defined by the revised IAS 39. The standard requires retrospective application. In the corresponding financial statements the Company’s financial instruments were classified into the following categories:

-All loans, receivables and deposits originated by the Company were classified as loans and receivables originated by the Company and measured at amortised cost. Current portion of loans and receivables originated by the Company was classified as current assets, based on remaining maturity at the balance sheet date. There was no impact on net income or equity from this redesignation.

-All loans received and other interest bearing borrowings of the Company’s were classified as held to maturity financial instruments and measured at amortised cost as of 1 January 2005. There was no impact on net income or equity from this redesignation.

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

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

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment relates to accounting of pension plans. As the company has no benefit plans established, this IAS 19 is not relevant to the Company.



## **Notes to the annual accounts**

- IAS 21 (Amendment), The Effects of Changes in Foreign exchange Rates – Net Investment in a Foreign Operation (effective from 1 January 2006). Management considered this amendment to IAS 21 and concluded that it is not relevant to the Company.

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

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

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

– IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). Management considered this amendment to IFRS 1 and IFRS 6 and concluded that it is not relevant to the Company.

– IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Company's operations. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

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

## **Notes to the annual accounts**

– IFRIC 5, (effective from 1 January 2006). IFRIC 5 is not relevant to the Company's operations.

– IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). The interpretation deals with obligations arising from the European Union Directive regulating the collection, treatment, recovery and environmentally sound disposal of waste equipment. Management is currently assessing the impact of IFRIC 6 on the Company's operations and concluded that it is not relevant to the Company.

– IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 march 2006). IFRIC 7 is not relevant to the Company's operations.

– IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006). The Interpretation clarifies application of the accounting standard IFRS 2 Share-based Payment. IFRIC 7 is not relevant to the Company's operations.

## Notes to the annual accounts

### 4 Segment reporting

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

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Results for 2005 by geographical segment can be specified as follows:

LTL'000	Lithuania	Germany	Hungary	England	Other countries	Total
Revenue	36,967	11,425	15,027	9,902	7,923	81,244
Segment result	2,449	166	233	67	513	3,428
Unallocated expenses						-9,388
Operating result						-5,960
Net financing items						714
Result before tax						-5,246
Income tax expense						-348
Net result for the year						-5,594
Segment receivable	8,267	1,122	182	0	1,140	10,711
Unallocated assets						57,565
Total assets						68,276
Unallocated liabilities						20,571
Cash flows from operating activities	37,927	10,316	15,912	15,691	7,257	87,103
Unallocated cash flow from operating activities						-73,343
Unallocated cash flows from investing activities						-1,049
Unallocated cash flows from financing activities						-11,536
Net cash flow						1,175
Unallocated capital expenditure						1,007

## Notes to the annual accounts

Results for 2004 by geographical segment can be specified as follows:

LTL'000	Lithuania	Germany	Hungary	England	Other countries	Total
Revenue	47,514	24,813	24,437	19,436	6,533	122,733
Segment result	9,953	4,555	3,724	1,169	1,040	20,441
Unallocated expenses						-15,597
Operating profit						4,844
Net financing items						-595
Profit before tax						4,249
Income tax expense						-578
Net profit for the year						3,671
Segment receivable	9,227	13	1,067	5,789	474	16,570
Unallocated assets						69,421
Total assets						85,991
Unallocated liabilities						32,692
Cash flows from operating activities	48,945	28,421	23,880	19,076	7,155	127,477
Unallocated cash flow from operating activities						-120,134
Unallocated cash flows from investing activities						-8,881
Unallocated cash flows from financing activities						-522
Net cash flow						-2,060
Unallocated capital expenditure						9,210

## Notes to the annual accounts

Litas	<u>2005</u>	<u>2004</u>
<b>5 Distribution expenses</b>		
Salaries and social insurance	695,978	673,035
Transportation	545,195	1,103,661
Credit insurance	212,800	179,598
Commissions	71,568	1,490,365
Other	341,751	420,117
	<u>1,867,292</u>	<u>3,866,776</u>
<b>6 Administrative expenses</b>		
Salaries and social insurance	3,581,748	3,152,587
Territory guards and cleaning	996,241	1,194,283
Depreciation	952,526	673,189
Write down of inventories	610,422	794,000
Repairs	459,967	2,261,571
Utilities	395,605	431,292
Cars exploitation	311,262	423,306
Road tax	236,001	610,799
Real estate tax	222,225	216,960
Business trips	89,510	156,016
Employee training	29,606	146,090
Other	1,561,505	3,361,126
	<u>9,446,618</u>	<u>13,421,219</u>
<b>7 Personnel expenses</b>		
Wages and salaries	18,732,956	25,557,065
Compulsory social security contributions	5,807,217	7,922,690
	<u>24,540,173</u>	<u>33,479,755</u>

Staff costs include wages and salaries and emoluments (including social security contributions) for the management of Litas 1,590 thousand (2004: Litas 2,040 thousand).

The Company had 857 employees at the end of 2005 (2004: 2,125 employees). In 2005, 915 employees were dismissed and redundancy payments amounted to Litas 1 466 thousand, including social security contributions.

## Notes to the annual accounts

Litas	2005	2004
<b>8 Other operating income and expenses</b>		
Rental income	2,940,917	2,906,048
Sales of raw materials and goods for resale	2,114,480	646,629
Gain from unclaimed trade liabilities	286,674	0
Proceeds from sales of property, plant and equipment	17,357	329,339
Other gains	23,686	58,600
Other operating income	5,383,114	3,940,616
Cost of rented premises	1,449,587	1,641,501
Cost of sales of raw materials and goods for resale	1,821,441	376,954
Book value of disposed property, plant and equipment	14,027	288,013
Other operating expenses	3,285,055	2,306,468
<b>Other operating income, net</b>	2,098,059	1,634,148
<b>9 Financing income and expenses</b>		
Foreign exchange gain	152,761	389,652
Interest on loans issued	0	77,512
Other financial income	1,817	0
Financial income	154,578	467,164
Interest expense on bank borrowings and lease	-595,786	-657,796
Foreign exchange transaction loss	-438,227	-370,647
Other financial expenses	-56,416	-33,114
Financial expenses	-1,090,429	-1,061,557
<b>Financial items, net</b>	-935,851	-594,393

## Notes to the annual accounts

Litas	2005	2004
<b>10 Corporate income tax expenses</b>		
<b>Current tax expense</b>		
Current tax	0	672,753
Corporate income tax corrections for previous periods	-3,734	-40,406
	-3,734	632,347
<b>Deferred tax expense</b>		
Change in deferred taxation	352,074	-54,000
	352,074	-54,000
<b>Total income tax expense</b>	348,340	578,347

The reconciliation of effective tax rate is as follows:

Litas'000	2005		2004	
Result before tax		-5,246		4,249
Income tax using effective tax rate	15.0%	-787	15.0%	637
Support and gifts to employees	-0.6%	30	0.8%	35
Vacation reserve	0%	0	0.9%	40
Disposed current assets	-0.1%	7	0.2%	10
Non-deductible taxes	-0.1%	3	0.2%	10
Other non-deductible expenses	-0.7%	37	0.5%	22
Realised gain on derivative financial instruments	0.4%	-22	-2.7%	-117
Other non-taxable income	0.1%	-4	-0.4%	-18
Under / over provided in prior years	0.1%	-4	-0.9%	-41
Unrecognised deferred tax asset on temporary deductible differences	-26.3%	1,378	0	0
Effect of increased corporate income tax rate for unrecognised deferred tax asset	5.5%	-290	0	0
	-6.6%	348	13.6%	578

The deferred tax asset resulting from temporary non deductible differences and on loss carried forward has not been recognized due to uncertainty that future taxable profits will be available against which the tax benefits can be utilized.

## Notes to the annual accounts

11 Deferred tax	2005		2004	
	Temporary diff.	Deferred tax (19%)	Temporary diff.	Deferred tax (15%)
Litas'000				
Provision for fixed assets	607	115	665	100
Unrecorded revaluation gain on non-current assets transferred to subsidiaries	629	120	120	
Provision for inventories	1,352	257	1,536	230
Other receivables provision	23	4	23	3
Provision for trade receivable	54	10	0	0
Other accrued expenses	0	0	124	19
Taxable loss carried forward	4,589	872		
	<u>7,254</u>	<u>1,378</u>	<u>2,348</u>	<u>352</u>
Unrecognised deferred tax asset		1,378		
<b>Deferred tax asset</b>		<u>0</u>		<u>352</u>

As at 31 December 2005, deferred tax asset on temporary deductible differences was not recognized due to uncertainty of its realization. Deferred tax asset arising on taxable loss carried forward was recognized to the extent that it will reverse temporary taxable difference.

The movement in the deferred tax asset account is as follows:

Litas	2005	2004
1 January	352,074	298,074
Change in deferred tax asset	-352,074	54,000
Deferred tax at 31 December	<u>0</u>	<u>352,074</u>

## 12 Current tax assets and liabilities

The current tax asset of Lit 1,422 thousand (2004: Lit 1,674 thousand) represents the amounts of income tax recoverable in respect of current and prior periods that exceed payments.



## Notes to the annual accounts

### 13 Property, plant and equipment

Litas	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Tools, fixtures and fittings</u>	<u>Motor Vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost at 1 January	24,759,577	45,719,201	28,177,371	2,004,499	1,289,413	101,950,061
Additions		176,025	146,908		612,248	935,181
Disposals		-2,828,679	-2,051,887	-16,534		-4,897,100
Contribution to subsidiaries capital		-16,828,684	-1,971,774	-285,696		-19,086,154
Reclassifications	518,011	746,613	637,037		-1,901,661	0
Cost at 31 December	<u>25,277,588</u>	<u>26,984,476</u>	<u>24,937,655</u>	<u>1,702,269</u>	<u>0</u>	<u>78,901,988</u>
Depreciation at 1 January	8,331,321	26,561,432	17,183,946	1,242,786	0	53,319,485
Depreciation for the year	506,054	4,602,208	3,182,874	201,721		8,492,857
Disposals		-2,821,807	-2,044,735	-16,532		-4,883,074
Contribution to subsidiaries capital		-10,918,874	-1,463,740	-173,384		-12,555,998
Reclassifications						0
Depreciation at 31 December	<u>8,837,375</u>	<u>17,422,959</u>	<u>16,858,345</u>	<u>1,254,591</u>	<u>0</u>	<u>44,373,270</u>
<b>Net book value at 31 December</b>	<u>16,440,213</u>	<u>9,561,517</u>	<u>8,079,310</u>	<u>447,678</u>	<u>0</u>	<u>34,528,718</u>
Net book value at 1 January	<u>16,428,256</u>	<u>19,157,769</u>	<u>10,993,425</u>	<u>761,713</u>	<u>1,289,413</u>	<u>48,630,576</u>
Depreciated over	8-60 years	2-15 years	2 - 8 years	5 - 6 years		

## **Notes to the annual accounts**

Depreciation has been allocated as follows:

Litas	2005	2004
Production and production development costs	7,620,053	7,976,787
Administrative expenses	705,349	467,429
Distribution expenses	20,318	15,783
Other operating expenses	147,137	133,719
Total	<u>8,492,857</u>	<u>8,593,718</u>

Property plant and equipment with a book value of Litas 6,530 thousand has been transferred to the subsidiaries as at 31 December 2005, as explained in note 15 to the annual accounts.

### **Leased plant and machinery**

The Company (lessee) leases production equipment under financial leasing agreements. The net carrying amount of leased assets amounts to Litas 363 thousand as at 31 December 2005 (2004: Litas 412 thousand). The leased equipment secures lease obligations (refer Note 22).

Buildings of the Company with a book value of Litas 16,440 thousand are partly rented and partly owner occupied. The Company (as a lessor) leases 33,026 out of total 81,638 square metres to third parties (2004: 13,630 out of 79,645 square meters). The book value of the rented premises amounts to Litas 6,919 thousand as at 31 December 2005 (2004: Litas 3,723 thousand).

### **Security**

At 31 December 2005, property, plant and equipment with a carrying amount of Litas 16,440 thousand (2004: Litas 16,428 thousand) are pledged to secure bank loans (refer Note 22).

## Notes to the annual accounts

### 14 Intangible fixed assets

Litas	Licences, certificates	Software	Total
Cost at 1 January	341,588	1,745,797	2,087,385
Additions during the period	56,394	15,146	71,540
Disposals		-31,093	-31,093
Contribution to subsidiaries capital		-607,279	-607,279
Cost at 31 December	397,982	1,122,571	1,520,553
Amortisation at 1 January	240,667	917,870	1,158,537
Amortisation for the period	72,290	293,283	365,573
Disposals		-31,092	-31,092
Contribution to subsidiaries capital		-446,378	-446,378
Amortisation at 31 December	312,957	733,683	1,046,640
<b>Net book value at 31 December</b>	<b>85,025</b>	<b>388,888</b>	<b>473,913</b>
Net book value at 1 January	100,921	827,927	928,848
Amortised over	1-3 years	1-3 years	

Amortisation has been allocated as follows:

Litas	2005	2004
Production and production development costs	118,396	35,046
Administrative expenses	247,177	205,760
Total	365,573	240,806

Intangible assets with a book value of Litas 161 thousand has been transferred to the subsidiaries as at 31 December 2005, as explained in note 15 to the annual accounts.

## Notes to the annual accounts

### 15 Investments in subsidiaries

In October 2005, the Company established two subsidiaries UAB “Vilniaus Vingio Gija” and UAB “Vilniaus Vingio Mechanika”, which are 100% owned by the Company. There were no activities in the subsidiaries during 2005. The subsidiaries are not consolidated in the annual accounts of UAB Vilniaus Vingis, as the effect of consolidation has been considered to be immaterial for the financial statements for 2005. The investments in the subsidiaries are stated at cost.

Litas	2005	2004
Share capital of UAB “Vilniaus Vingio Gija”	30,000	0
Share capital of UAB “Vilniaus Vingio Mechanika”	30,000	0
Total paid in share capital	<u>60,000</u>	<u>0</u>

The share capital of the subsidiaries, each amounting to Litas 30 thousand, has been fully paid in as at 31 December 2005.

On 13 December 2005, following the Board decision, the non current assets were transferred to the subsidiaries as follows:

Litas	Vilniaus Vingio Gija	Vilniaus Vingio Mechanika	Total
Machinery	3,796,227	2,113,583	5,909,810
Vehicles	73,244	39,068	112,312
Other equipment	419,130	88,904	508,034
Property plant and equipment	<u>4,288,601</u>	<u>2,241,555</u>	<u>6,530,156</u>
Software	18,240	142,661	160,901
Total intangible assets	<u>18,240</u>	<u>142,661</u>	<u>160,901</u>
Total contribution	<u>4,306,841</u>	<u>2,384,216</u>	<u>6,691,057</u>

The contribution is presented as a prepayment for the increase of the share capital of the subsidiaries. The in-kind increase in the share capital of the subsidiaries was registered on 15 January 2006.

## Notes to the annual accounts

Litas	2005	2004
<b>16 Inventories</b>		
Raw materials	5,107,608	7,909,077
Work in progress	766,533	950,379
Finished goods	1,884,254	6,381,043
Goods for resale	1,729,519	0
Spare parts and tools	1,166,069	1,266,984
<b>Net book value at 31 December</b>	<b>10,653,983</b>	<b>16,507,483</b>

Raw materials consist of plastics, wires, metals and other materials used in production.

The Company had no inventories stated at fair value less cost to sell as at 31 December 2005.

Inventories charged to income statement are as follows:

Cost of sales (produced goods sold)	77,687,255	102,234,848
Administrative expenses (write down of inventories)	610,422	794,000
Other operating expenses (goods for resale sold)	1,315,177	0
Other operating expenses (raw materials, spare parts sold)	506,264	376,954
	<b>80,119,118</b>	<b>103,405,802</b>

Administrative expenses include increase in provision for slow moving and obsolete inventories.

Other operating expenses include goods for resale, raw materials, and other inventories sold, not in the ordinary course of business. The Company has purchased TV tubes in 2005 amounting to Litas 3,045 thousand. TV tubes amounting to Litas 1,315 thousand were sold during 2005 for the purchased price (refer to Note 8).

At 31 December 2005, inventories up to the carrying amount of Litas 13,000 thousand are pledged to secure bank loans (refer to Note 22).

## Notes to the annual accounts

Litas	2005	2004
<b>17 Trade receivables</b>		
Trade receivables	10,764,622	16,627,318
Accumulated impairment loss	-54,000	-57,120
<b>Net book value at 31 December</b>	10,710,622	16,570,198

Trade receivables are shown net of impairment losses. The impairment loss during the year is recognized as administrative expenses.

<b>18 Other receivables</b>		
VAT and other tax overpayment	403,235	526,344
Prepayments and deferred charges	383,181	436,541
Other receivables	368,844	309,030
<b>Net book value at 31 December</b>	1,155,260	1,271,915

VAT and other tax overpayments include a prepaid payroll of Litas 228 thousand, receivable VAT of Litas 172 thousand and other taxes of Litas 3 thousand as at 31 December 2005.

<b>19 Cash and cash equivalents</b>		
Term deposits	576,540	0
Cash at bank	620,264	28,826
Cash in hand	33,436	26,574
<b>Cash and cash equivalents at the end of the year</b>	1,230,240	55,400

A term deposit is pledged to the bank to secure obligations under copper swap contract (refer to note 24). The term deposit has fixed interest rate of 4,05%.

At 31 December 2005, cash at bank and future inflow into the banks accounts up to the carrying amount of Litas 18,000 thousand (2004: Litas 18,000 thousand) are pledged to secure bank loans (refer to Note 22).

## Notes to the annual accounts

### 20 Capital and reserves

#### Share capital

The share capital comprises 9,123,105 ordinary shares with a nominal value of Litas 4 each and the total share capital amounts to Litas 36,492,420.

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

#### Reacquired own shares

The Company reacquired own shares in the National Stock Exchange of Lithuania as follows:

Litas	2005		2004	
	Number of shares	Treasury shares	Number of shares	Treasury shares
At 1 January	475,817	3,946,668	125,817	971,668
Treasury shares acquired in the market	0	0	350,000	2,975,000
At 31 December	<u>475,817</u>	<u>3,946,668</u>	<u>475,817</u>	<u>3,946,668</u>

Reacquired own shares are stated as a deduction from the equity at their acquisition price.

#### Legal reserve

Legal reserve in amount of Litas 2,086 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 authorised capital.

#### Other reserves

Other distributable reserves in the amount of Litas 4,547 thousand were formed according to the shareholders decision, dated 2 April 2005 and comprise the reserve for own shares acquisition of Litas 3,947 thousand and other reserves of Litas 600 thousand, which were formed for the social needs.

## Notes to the annual accounts

### 21 Earnings per share

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

Litas	2005	2004
Shares issued 1 January	9,123,105	9,123,105
Effect of own shares held at 1 January	-475,817	-125,817
Treasury shares purchased in December 2004	0	-350,000
Average weighted number of shares in issue	8,647,288	8,968,288
Net result for the year, Litas	-5,594,375	3,671,289
Earnings per share, Litas	n/a	0.41

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

Litas	2005	2004
<b>22 Interest bearing loans and borrowings</b>		
<b>Non-current liabilities</b>		
Leasing obligations	0	260,168
Long term, secured financing facility	7,167,553	21,394,473
Net book value at 31 December	7,167,553	21,654,641
<b>Current liabilities</b>		
Leasing obligations	260,202	102,198
Short term, secured financing facility	2,793,298	0
<b>Net book value at 31 December</b>	3,053,500	102,198



## Notes to the annual accounts

### Terms and repayment schedule

Financial liabilities are payable as follows:

Litas	<u>Maturity</u>	<u>Total payable</u>	<u>in 2006</u>	<u>in 2007</u>
Loan of EUR 2,076 thousand, 12 months EURIBOR + 1.1%	15/02-2007	7,167,553		7,167,553
Credit facility of EUR 809 thousand, 1 month EURIBOR + 1.15%	12/06-2006	<u>2,793,298</u>	<u>2,793,298</u>	
<b>Total</b>		<u><u>9,960,851</u></u>	<u><u>2,793,298</u></u>	<u><u>7,167,553</u></u>

The Company has pledged its fixed assets with the booked value of Litas 16,440 thousand as at 31 December 2005 (2004: Litas 16,428 thousand), inventories up to the carrying amount of Litas 13,000 thousand (2004: Litas 13,000 thousand) and cash at bank and future inflow into the banks up to the carrying amount of Litas 18,000 thousand (2004: Litas 18,000 thousand) to secure the bank loans.

Future minimum lease payments are as follows:

Litas '000	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
Less than 1 year	<u>271,242</u>	<u>11,040</u>	<u>260,202</u>
	<u><u>271,242</u></u>	<u><u>11,040</u></u>	<u><u>260,202</u></u>

Financial lease liabilities bear variable interest rate set to 12 months LIBOR EUR plus 1.351% margin.

Litas	<u>2005</u>	<u>2004</u>
<b>23 Other creditors</b>		
Salaries and related taxes	471,104	675,380
Taxes	319,743	100,017
Vacation reserve	583,734	385,718
Dividend payable for previous year	127,800	143,235
Advances	61,163	175,298
Other payables and accrued charges	541,677	488,663
	<u><u>2,105,221</u></u>	<u><u>1,968,311</u></u>

## **Notes to the annual accounts**

### **24 Derivative financial instruments**

On 28 November 2005, the Company entered into a copper swap transaction with a bank. The derivative financial instrument was designated as held for trading.

According to the contract, the Company agreed to exchange standard copper quantity of 100 tones at a fixed price for the same notional quantity at its average monthly price (by reference to the London Metal Exchange) at 15 monthly intervals, the first being set on 31 December 2005 and the last on 28 February 2007. The total notional quantity of copper under the contract is 1,500 tones.

On 31 December 2005, the Company realized USD 63 thousand or Litas 184 thousand gain on the first exchange of 100 tones notional quantity of copper. As at 31 December 2005, the outstanding not matured swap of 1,400 tones is stated at fair value, estimated by reference to a quotation of the contract market value received from the bank as at 31 December 2005. The fair value of the contract is USD 400 thousand or Litas 1,165 thousand. The fair value of the swap contract reflected in the balance sheet is USD 463 thousand or Litas 1,349 thousand (including the receivable for the matured part of the contract of USD 63 thousand or Litas 184 thousand).

On 19 January 2006, the swap contract was cancelled partially, i.e. except for 100 tones swap maturing on 31 January 2006. A gain of USD 539 thousand or Litas 1,535 thousand was realized on the cancellation. The amount was paid to the Company on 23 January 2006.

On maturity of the not cancelled part of the mentioned swap contract on 31 January 2006, the Company realized USD 79 thousand or Litas 225 thousand gain, which was paid to the Company on 2 February 2006.

On 16 January 2006, the Company entered into a copper swap transaction with a bank for a notional quantity of 2,250 tones of copper, maturing on 30 April 2007. The swap was cancelled on 25 January 2006. The Company realized a gain of USD 108 thousand or Litas 303 thousand on the cancellation, which was paid to the Company on 27 January 2006.

### **25 Financial instruments**

Exposure to credit, interest rate and currency risk arises in the normal course of the Company's business.

#### ***Credit risk***

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Majority of the Company's trade receivable is insured. At the balance sheet date, there were the following concentrations of credit risk:

As at 31 December 2005, the Company has Litas 7,440 thousand overdue receivable from a customer, overdue for more than 90 days. The receivable is mainly for the sales in the first and second quarter of 2005. The overdue debtor is claimed for this by the Company in court. Until 9 March 2006, the Company received settlements from the customer in the amount of Litas 1,528 thousand, as a result the outstanding receivable from the customer decreased down to Litas 5,912 thousand.

## Notes to the annual accounts

The receivable from the customer, except for Litas 297 thousand, is insured with a franchise of 15%. On 2 February 2006, the Company claimed Litas 4,773 thousand to be covered by the insurance company. On 8 March 2006, the Company provided the insurance company with the necessary documentation to effect the compensation, and the compensation is receivable within 30 days from that date, according to the insurance contract.

Net of the post balance sheet payments and net of insurance compensation receivable, the Company has a credit risk exposure with the customer of Litas 1,139 thousand. No impairment has been recognised on the receivable.

As at 31 December 2005, the Company has EUR 325 thousand or Litas 1,120 thousand overdue receivable from another customer. The receivable originated in the fourth quarter of 2005. Until 9 March 2006, the Company received EUR 50 thousand or Litas 172 thousand settled by the overdue debtor. The outstanding balance of the receivable from the debtor as at 9 March 2006 amounts to EUR 275 thousand or Litas 949 thousand, which is insured with a franchise of 15%.

Net of the post balance sheet payment and net of insurance compensation receivable, the Company has a net credit risk exposure with another customer of EUR 41 thousand or Litas 142. No impairment was recognized on the amount receivable, as the management believes the debtor will settle in the nearest future.

### *Interest rate risk*

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

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

### *Foreign exchange risk*

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Litas and euro (the Lithuanian Litas is pegged to euro at a fixed rate equal 3.4528 LTL / EUR). The currency giving rise to this risk is primarily US Dollars. The Company did not use any instruments to hedge its exposure to foreign currency exchange risk.

The Company held position in foreign currencies as stated below:

LTL'000	31 December 2005		31 December 2004		
	EUR	USD	EUR	USD	Other

## Notes to the annual accounts

Trade debtors	2,348	150	7,010	277	0
Prepayments and other receivables			27	3	
Fair value derivative financial instruments	0	1,349		0	0
Cash	8	586	16	19	0
Borrowings	-10,221	0	-21,757	0	0
Trade creditors	-572	0	-2,400	-977	-14
Advances received	0	0	-103	0	0
	<u>-8,437</u>	<u>2,085</u>	<u>-17,207</u>	<u>-678</u>	<u>-14</u>

The position in a foreign currency is translated into Litas at the exchange rate ruling at the balance date. Exchange rate of US Dollars was 2.9102 LTL / USD as at 31 December 2005.

## 26 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on the composition of the Board below), the subsidiaries UAB Vilniaus Vingio Gija, UAB Vilniaus Vingio Mechanika, members of the key management personnel in AB Vilniaus Vingis (as listed on page 1) and of the subsidiaries, as well as close members of the family of the mentioned shareholders.

The Board of the Company comprises 5 members, including 3 of the key management personnel (one of them resigned from the management in January 2006) that are also shareholders of the Company and 2 representatives of Finasta group companies.

During 2005, the Company paid in the share capital of the newly established subsidiaries and transferred non-current assets to them as advance for increase in their share capital affected in 2006 and settled in kind, as explained in note 15.

UAB Sertika, which is partly owned by Jonas Čaplikas (former sales director) - 60% and Antanas Savickas (quality director) - 20%, provided services to AB Vilniaus Vingis of Litas 1 thousand (2004: Litas 5 thousand).

During 2004, the Company rented premises in the centre of Vilnius for representation purposes from UAB Hermis Fondu Valdymas. The rent fees paid for 2004 amounted to Litas 79 thousand.

In January 2004, by a decision of the Board, the Company issued a loan of Litas 6,850 thousand to UAB Snavesta (the total amount of the loan according to the agreement signed amounted to Litas 8,000 thousand). The loan was repaid on 5 April 2004. Interest income from the loan amounted to Litas 78 thousand in 2004.

## **Notes to the annual accounts**

### **27 Subsequent events**

The share capital of subsidiaries UAB Vilniaus Vingio Gija and UAB Vilniaus Vingio Mechanika was increased on 15 January 2005, as explained in note 15.

Transactions regarding derivative financial statements after the balance sheet date are described in note 24.

Payment of overdue receivables after the balance sheet date are disclosed in note 25 Credit risk section.

### **28 Contingencies**

The Company issued a legal claim to a customer regarding the settlement of overdue receivable from as described in note 25 under Credit risk section.

The Company is claimed by several employees regarding compensation for the forced vacation. The total amount of the claims is of Litas 17 thousand. According to the lawyers representing the Company in these claims, the outcome of the cases is currently difficult to estimate. No provision for the claims has been recognized in the financial statements of the Company.

The Company argues with a foreign customer regarding quality of the goods supplied by AB Vilniaus Vingis in September 2004. The customer complained regarding the quality of the goods in March 2005. However, the customer has not returned any of the goods to the Company and settled for them in 2004. No legal claim has been issued by the customer regarding the quality of the goods. Currently, the management of the Company has no intention to compensate the customer for any losses.

General director

Vaclovas Šleinota

## **Report on the activities of Vilniaus Vingis AB for the year 2005**

Dear Shareholders,

The previous year was hard for the Company. The market situation has not essentially changed as compared to the year 2004 and was distinguished for dramatic changes in the market of deflection yokes and further reduction of the prices due to the China's manufacturers' expansion.

The Company has planned to sell its products for Litas 127 million and generate profit before taxation of Litas 3.5 million. The Company has not achieved the targets for 2005 – the products sold amounted to Litas 81.2 million (or less by Litas 41.5 million as compared to the year 2004) and suffered a loss of Litas 5.59 million.

The Company manufactured 5.8 million pieces of deflection yokes or less by 40% as compared to the year 2004. The reduction of sales was highly affected by the fact that factories of the two main clients – Samsung SDI, Germany, and LG Philips Displays, England, - have been closed.

Due to expansion of low prices from China as compared to the year 2004, sales of transformers decreased by Litas 1,500 thousand. In general, due to reduction of production of our main products – deflection yokes and transformers, the Company's sales in 2005 decreased by Litas 41 million of the turnover.

In order to activate search of new products, more attention has been paid to sales and a new position of a director for business development was introduced, sales have been decentralised as to divisions.

As compared to the year 2004, sales of new non-traditional products exceeded Litas 2.0 million, however, the general reduction was not compensated.

Gross profit generated by the Company in 2005 amounted to Litas 3 million 556 thousand or was lower by Litas 16 million 942 thousand as compared to the year 2004 due to the following reasons:

- 1 Sales decreased by 33.8 %;
- 2 Erosion of the prices of the items sold by the company amounted to Litas 1.3 million.
- 3 Increase of world prices of copper, plastic, metals etc resulting in a loss of Litas 3.5 million.
- 4 With the decrease of sales, the Company had to decrease the number of the employees – 829 employees were dismissed in 2005 resulting in redundancy payments for the Company of Litas 1.5 million.

During the accounting year, costs per Litas of the products sold amounted to cents 95.78 (as compared to cents of 84.24 in 2004 and 78.37 in 2003). The analyses made by the Company revealed that, having eliminated impact of the factors non-depending on the Company, the costs reduction targets of the Company have been achieved.

As compared to the year 2004, the operating costs decreased by Litas 5 million 974 thousand due to reduced sales costs (Litas 2 million), costs for projecting of products (Litas 1.2 million) and current repairs costs (Litas 2.1 million).

Profit from other activities amounted to Litas 2 million 98 thousand, including profit from lease of non-current assets amounting to Litas 1 million 491 thousand and profit from written off creditor's liability amounted to 287 thousand Litas.

Financial and investment activities of the Company resulted in a loss of Litas 936 thousand including interest paid to banks of Litas 585 thousand and negative currency exchange of 285 thousand Litas.

The realized profit from forward contracts regarding purchase of copper amounted to Litas 183 thousand and the non-realised profit due to revaluation of fair price of the contract amounted to Litas 1.2 million.

For investments, the company allocated Litas 1 million, mostly for up-dating of new products and technologies.

In 2005, cash flows improved significantly in the Company. During the year, financial debts decreased from Litas 21.7 million to Litas 10.2 million, i.e. by Litas 11.5 million.

As to the plans approved by the Board last year, activities regarding search of product of new segments, preparation for the Company's restructuring, increase of independence and responsibility of individual divisions - up to separation of these divisions to independent legal persons - were pursued.

By Resolution of minutes No. 10 of the Board meeting, dated 23 September 2005, two subsidiaries were established – Vilniaus Vingio Mechanika UAB and Vilniaus Vingio Gija UAB.

As at 31 December 2005, Vilniaus Vingis AB holds 100 per cent of the shares of both companies under the ownership right – 30 000 ordinary shares of Vilniaus Vingio Mechanika UAB with a nominal value of 1 Litas each and 30 000 ordinary shares of Vilniaus Vingio Gija UAB with a nominal value of 1 Litas each.

On 15 January 2006, the share capital of the subsidiaries were increased: up to 2,543,647 ordinary shares with the nominal value of 1 Litas each of Vilniaus Vingio Mechanika UAB and up to 4,836,453 shares with a nominal value of 1 Litas each of Vilniaus Vingio Gija UAB. Both issues of the shares were bought by Vilniaus Vingis AB.

An amount of 30 000 shares of each of the subsidiaries were paid in cash. The remaining part of the shares was paid by non-monetary contributions by transferring movable non-current assets of profit centers Gija, Maga and Irankiu gamyba.

As at the end of the year, the Company had 475,817 own shares amounting to 5.22% of the authorised capital. The nominal value of the shares is Litas 1,903,268 and the acquisition value is Litas 3,946,668.

During the accounting year, the Company had no branches and representative offices.

The Company forecasts that the consolidated sales of the group in 2006 will amount to Litas 89 million resulting in profit before taxes of Litas 1.1 million. Investments into modernisation and diversification of production will amount to Litas 15.7 million.

Thank You for Your attention

Chairman of the Board

Vaclovas Šleinota