

***PUBLIC COMPANY “VILNIAUS BALDAI”***

*Report for the Three Quarters 2006*

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## I. GENERAL PROVISIONS

### 1. Reporting period covered by this Report

The Report has been drawn up for the period of three quarters 2006.

### 2. Main data about the issuer

|  |  |
|--|--|
| Name of the issuer   | Public company (AB) "Vilniaus baldai"                              |
| Code   | 1219 22783   |
| Authorized capital   | 15 545 068 Lt  |
| Office address   | Savanorių Ave. 178, LT-03154 Vilnius                               |
| Telephone  | +370 5 252 57 00   |
| Fax  | +370 5 231 11 30   |
| E-mail   | <a href="mailto:info@vilniausbaldai.lt">info@vilniausbaldai.lt</a> |
| Website  | <a href="http://www.vilniausbaldai.lt">www.vilniausbaldai.lt</a>   |
| Legal and organizational form  | Legal person of limited liability; public company                  |
| Date and place of registration                                       | 9 February 1993; Vilnius municipality                              |
| Register, in which data about the company are accumulated and stored | Register of legal entities   |

Main areas of the Company's activities: design, manufacturing and sale of office, bedroom, sitting room and hall furniture.

### 3. Information about where and how to access the Report and the documents, on the basis of which it has been drawn up, and the designation of the means of mass media for announcements

The Report and supporting documents, on the basis of which it has been drawn up, can be accessed at the Company's registered office at Savanorių Ave. 178, Vilnius, and in the financial brokerage firm AB "Finasta", Konstitucijos Ave. 23, Vilnius.

The means of mass media for AB "Vilniaus baldai" announcements: the daily "Verslo žinios", the Lithuanian news agency ELTA and the news agency BNS.

### 4. Persons responsible for the accuracy of the information in the Report

4.1. Members of the managing bodies, employees and the Head of the Administration of the issuer are responsible for the accuracy of the information:

Nerijus Pacevičius, Director General, tel. +370 5 252 57 00, fax. +370 5 231 11 30

Vygantas Didžiulis, Chief Financier, tel. +370 5 252 57 20

4.2. The Report was drawn up by the financial brokerage firm AB "Finasta" (Konstitucijos Ave. 23, Vilnius, tel. +370 5 278 68 44, fax. +370 5 210 24 74), represented by Dalius Kaziūnas, Director, on the basis of the information submitted by the Company.

**5. Declaration by the members of the issuer's managing bodies, employees, the Head of the Administration and the issuer's consultants that the information contained in the Report is in accordance with the facts and that the Report makes no omission likely to have an effect on the investors' decision concerning purchase, sale or valuation of the issuer's securities or on the market price of these securities.**

AB "Vilniaus baldai", represented by Nerijus Pacevičius, Director General, and Vygantas Didžiulis, Chief Financier, hereby confirm that the information contained in the Report is in accordance with the facts and that the Report makes no omission likely to have an effect on the investors' decision concerning purchase, sale or valuation of the issuer's securities or on the market price of these securities.

**Nerijus Pacevičius**, Director General of AB "Vilniaus baldai"

\_\_\_\_\_

**Vygantas Didžiulis**, Chief Financier of AB "Vilniaus baldai"

\_\_\_\_\_

The financial brokerage firm AB "Finasta", represented by Dalius Kaziūnas, Director, hereby confirms that the information contained in the Report is in accordance with the facts as presented to AB "Finasta" by the employees and managers of AB "Vilniaus baldai". AB "Finasta" is responsible for the proper disclosure of the presented facts. AB "Vilniaus baldai" is responsible for the accuracy of the information presented.

**Dalius Kaziūnas**, Director of AB "Finasta"

\_\_\_\_\_

Date of signing the Report: 30 October 2006.

Place of drawing up of the Report: AB "Finasta" (Konstitucijos Ave. 23, Vilnius)

## II. DATA ABOUT THE ISSUER'S MAJOR SHAREHOLDERS AND MEMBERS OF THE MANAGING BODIES

### 6. Shareholders

The authorized capital of AB "Vilniaus baldai" as registered in the Register of Legal Entities amounts to LTL 15,545,068. It is divided into 3,886,267 common shares of LTL 4 nominal value. All shares of the Company are fully paid up.

As of 29 September 2006, the total number of AB "Vilniaus baldai" shareholders was 1,169.

Table 6.1. Shareholders who held title to more than 5 percent of the issuer's authorized capital and/ or votes.

| Name, surname of the shareholder (name of the company, address of the registered office and code of the enterprise) | Number of shares the shareholder holds by the right of ownership, units | Share of the authorized capital held, % | Share of the votes attaching to the shares held by the right of ownership, % | Share of votes held by the shareholder together with the persons acting in concert, % |
|---|---|---|--|---|
| AB "INVALDA"<br>Šeimyniškių St. 3, Vilnius<br>1213 04349  | 2,597,756   | 66.84                                   | 66.84  | ---   |
| HANSABANK CLIENTS<br>Liivalaia 8, 15040 Tallinn,<br>Estonia<br>10060701   | 276,050   | 7.10                                    | 7.10   | ---   |

### 7. Members of the managing bodies

AB "Vilniaus baldai" is managed through the General Shareholders' Meeting; it has a single person managing body, Director General, and a collegial managing body, the Board. The Supervisory Board is not formed.

The General Shareholders' Meeting elects the Company's Board for a term of four years. The Board comprises 3 members. The Board elects and removes from office the Company's Director General, sets his/her salary, approves work regulations, offers incentives and imposes penalties.

#### 7.1. Position held, names and surnames, data about participation in the issuer's authorized capital

Table 7.1. Members of the Company's Board and the Administration. Participation in the Company's authorized capital

| Name, surname   | Share of the capital/ votes held, % |
|---|-------------------------------------|
| <b>THE BOARD</b>  |                                     |
| Alvydas Banys (Chairman)                                | 0.01                                |
| Algirdas Bučas  | 2.84                                |
| Dailius Juozapas Mišeikis                               | 1.45                                |
| <b>ADMINISTRATION</b>                                   |                                     |
| Nerijus Pacevičius, Director General (from 08.09.2006)  | -                                   |
| Viktoras Majauskas, Director General (until 07.09.2006) | -                                   |
| Vygantas Didžiulis, Chief Financier                     | -                                   |
| Vytautas Radžius, Technical Director                    | 0.0001                              |
| Algirdas Zavistanavičius, Personnel Director            | -                                   |
| Rima Vereckienė, Production Director                    | -                                   |
| Erika Markovska, Marketing Director                     | -                                   |

7.2. Data about participation in the activities of other companies, enterprises and organizations (name of the company, enterprise, or organization and position held), over 5 percent of capital and votes held in other enterprises (percentage)

Table 7.2. Participation of the Company's members of the Board and the Administration in the activities of other companies, enterprises and organizations (as of 29.09.2006)

| Name, surname                           | Name of the Company, enterprise, organization; position held | Share of the capital and of votes over 5 %, held in other enterprises by the right of ownership |
|---|--|---|
| Alvydas Banys                           | AB Invalda, Chairman of the Board                            | 11.9  |
|   | AB Vilniaus baldai, Chairman of the Board                    | -   |
|   | UAB Nenuorama, President                                     | 25.4  |
|   | UAB Invalda Real Estate, Member of the Board                 | -   |
|   | AB Valmeda, Chairman of the Board                            | -   |
|   | UAB PVP, undergoing liquidation procedure                    | 22.7  |
|   | AB Invaldos nekilnojamojo turto fondas, Member of the Board  | -   |
|   | UAB Invalda Construction Management, Member of the Board     | -   |
|   | AB Minija, Member of the Board                               | -   |
|   | AB Kauno tiltai, Member of the Board                         | -   |
|   | UAB Girių bizonas, Member of the Board                       | -   |
|   | UAB Gulbinų turizmas   | 8.3   |
|   | UAB Statybų mechanizacija                                    | 17.0  |
| Algirdas Bučas                          | AB FMĮ Finasta, Member of the Board                          | -   |
|   | UAB Invalda Construction Management, Member of the Board     | -   |
|   | UAB Invalda Real Estate, Member of the Board                 | -   |
|   | AB Valmeda, Member of the Board                              | -   |
|   | UAB Nenuorama  | 33.3  |
|   | UAB Hidroprojektas, Member of the Board                      | -   |
|   | AB Vilniaus baldai, Member of the Board                      | -   |
| Dailius Juozapas Mišeikis               | AB Invalda, Member of the Board                              | 15.1  |
|   | AB FMĮ Finasta, Member of the Board                          | -   |
|   | UAB Invalda Construction Management, Member of the Board     | -   |
|   | UAB Invalda Real Estate, Chairman of the Board               | -   |
|   | AB Valmeda, Member of the Board                              | -   |
|   | AB Sanitas, Member of the Board                              | -   |
|   | AB Umeqa, Member of the Board                                | -   |
|   | UAB PVP, undergoing liquidation procedure                    | 36.7  |
|   | UAB Nenuorama  | 33.   |
|   | AB Grigiškės   | 5.1   |
|   | AB Vernitas, Member of the Supervisory Board                 | -   |
|   | UAB Hidroprojektas, Member of the Board                      | -   |
|   | AB Invaldos nekilnojamojo turto fondas, Member of the Board  | -   |
|   | UAB Broner, Chairman of the Board                            | -   |
|   | UAB Wembley – Neringa, Chairman of the Board                 | -   |
| AB Minija, Member of the Board          | -  |   |
| AB Vilniaus baldai, Member of the Board | -  |   |
| UAB Aikstentis, Chairman of the Board   | -  |   |
| Neijus Pacevičius                       | UAB Aivenida   | 33  |
|   | UAB Dalinera   | 50  |

Other members of the Board and the Administration do not take part in the activities nor hold over 5 percent of the capital and votes of other companies, enterprises and organizations.

### III. FINANCIAL STATUS

The financial statements of AB “Vilniaus baldai” presented in this section of the Report are drawn up in accordance with the International Financial Reporting Standards (IFRS).

The auditors reviewed the financial statements of 31 December 2005, while those of 30 September 2006 and 30 September 2005 are unaudited.

#### 8. Balance Sheet

|   | LTL thousand         |                     |                      |
|---|----------------------|---------------------|----------------------|
|   | 30 September<br>2006 | 31 December<br>2005 | 30 September<br>2005 |
| <b>ASSETS</b>                               |                      |                     |                      |
| NON-CURRENT ASSETS:                         |                      |                     |                      |
| Non-current tangible assets                 | 63,426               | 68,939              | 69,424               |
| Intangible assets                           | 393                  | 419                 | 358                  |
| Investment                                  | 24,554               | 24,804              | 25,001               |
| <b>TOTAL NON-CURRENT ASSETS</b>             | <b>88,373</b>        | <b>94,162</b>       | <b>94,783</b>        |
| CURRENT ASSETS                              |                      |                     |                      |
| Inventories                                 | 18,306               | 14,325              | 14,066               |
| Trade debtors                               | 7,119                | 6,998               | 7,265                |
| Other accounts receivable                   | 2,924                | 2,811               | 3,904                |
| Cash and Cash Equivalents                   | 34                   | 8                   | 18                   |
| <b>TOTAL CURRENT ASSETS</b>                 | <b>28,383</b>        | <b>24,142</b>       | <b>25,253</b>        |
| <b>TOTAL ASSETS</b>                         | <b>116,756</b>       | <b>118,304</b>      | <b>120,036</b>       |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b> |                      |                     |                      |
| CAPITAL AND RESERVES                        |                      |                     |                      |
| Share capital                               | 15,545               | 15,545              | 15,545               |
| Revaluation reserve                         | 8,755                | 8,773               | 8,987                |
| Legal reserve                               | 1,222                | 1,049               | 1,049                |
| Retained earnings                           | 5,843                | 10,064              | 9,225                |
| <b>TOTAL CAPITAL AND RESERVES</b>           | <b>31,365</b>        | <b>35,431</b>       | <b>34,806</b>        |
| NON-CURRENT LIABILITIES                     |                      |                     |                      |
| Deferred tax liabilities                    | 2,046                | 2,046               | 2,261                |
| Loans and other interest bearing payables   | 39,197               | 53,435              | 59,305               |
| <b>TOTAL NON-CURRENT LIABILITIES</b>        | <b>41,243</b>        | <b>55,481</b>       | <b>61,566</b>        |
| TOTAL CURRENT LIABILITIES                   |                      |                     |                      |
| Loans and other interest bearing payables   | 26,353               | 11,559              | 6,047                |
| Debts to Suppliers                          | 12,891               | 12,894              | 13,979               |
| Other liabilities                           | 4,904                | 2,939               | 3,638                |
| <b>TOTAL CURRENT LIABILITIES</b>            | <b>44,148</b>        | <b>27,392</b>       | <b>23,664</b>        |
| <b>TOTAL LIABILITIES</b>                    | <b>85,391</b>        | <b>82,873</b>       | <b>85,230</b>        |
| <b>TOTAL EQUITY AND LIABILITIES</b>         | <b>116,756</b>       | <b>118,304</b>      | <b>120,036</b>       |

9<sup>(1)</sup>. Income Statement

LTL thousand

|   | 9 MONTHS 2006 | 9 MONTHS 2005 |
|---|---------------|---------------|
| TURNOVER                                | 81,305        | 78,419        |
| Production costs                        | (74,194)      | (68,689)      |
| GROSS PROFIT                            | 7,111         | 9,730         |
| Distribution costs                      | (876)         | (1,392)       |
| Administrative costs                    | (3,798)       | (3,787)       |
| Other operating income, net             | (156)         | (433)         |
| PROFIT FROM OPERATING ACTIVITIES        | 2,281         | 4,118         |
| Financial income, net                   | (2,221)       | (1,099)       |
| Operating result of the associated firm | (242)         | 0             |
| PROFIT BEFORE TAXES                     | (182)         | 3,019         |
| Income tax                              | (11)          | (453)         |
| NET ANNUAL PROFIT                       | (193)         | 2,566         |
| Earnings per share                      | (0.05)        | 0.66          |

9<sup>(2)</sup>. Statement of Changes in Equity

LTL thousand

|  | SHARE CAPITAL | LEGAL RESERVE | REVALUATION RESERVE | ACCRUED EARNINGS | TOTAL   |
|--|---------------|---------------|---------------------|------------------|---------|
| CAPITAL AND RESERVES AS OF 31 DECEMBER 2004  | 15,545        | 637           | 8,987               | 10,684           | 35,853  |
| Replacement of the revaluation reserve       |               |               | (232)               | 232              | 0       |
| Change in the deferred tax liability         |               |               | 18                  |                  | 18      |
| Dividend                                     |               |               |                     | (3,886)          | (3,886) |
| Allocation to the legal reserve              |               | 412           |                     | (412)            | 0       |
| NET PROFIT 31.12.2005                        |               |               |                     | 3,446            | 3,446   |
| CAPITAL AND RESERVES AS OF 31 DECEMBER 2005  | 15,545        | 1,049         | 8,773               | 10,064           | 35,431  |
| Replacement of the revaluation reserve       |               |               | (18)                | 31               | 13      |
| Dividend                                     |               |               |                     | (3,886)          | (3,886) |
| Allocation to the legal reserve              |               | 173           |                     | (173)            | 0       |
| NET PROFIT 30.09.2006                        |               |               |                     | (193)            | (193)   |
| CAPITAL AND RESERVES AS OF 30 SEPTEMBER 2006 | 15,545        | 1,222         | 8,755               | 5,843            | 31,365  |



9<sup>(3)</sup>. Cash Flow Statement

LTL thousand

|  | 9 MONTHS 2006  | 9 MONTHS 2005   |
|--|----------------|-----------------|
| Result after taxes   | (193)          | 2,414           |
| Adjustments:   |                |                 |
| Depreciation and amortisation  | 6,615          | 4,851           |
| Result from investing activities                                     | 242            | 0               |
| Sale, writing off, etc. of non-current tangible assets               | 0              | 38              |
| Deferred taxes   | 0              | 0               |
| Provisions for outdated inventories                                  | 0              | 0               |
| Provisions for problematic amounts receivable                        | 0              | 0               |
| Amounts accrued to cover tax liabilities                             | 11             | 426             |
| Holiday pay reserve  | 0              | 0               |
| Financial income and costs   | 2,221          | 1,099           |
| Cash flow from ordinary activities before changes in working capital | 8,896          | 8,828           |
| Changes in trade receivables and other amounts receivable            | 1,364          | 1,362           |
| Changes in inventories   | (3,928)        | (4,165)         |
| Changes in debts to suppliers and other liabilities                  | 744            | (5,757)         |
| Cash flow from operating activities                                  | 7,076          | 268             |
| Income tax paid  | (893)          | (2,422)         |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                           | <b>6,183</b>   | <b>(2,154)</b>  |
| Acquisition of non-current assets                                    | (1,010)        | (15,677)        |
| Acquisition of investments   | 0              | (24,250)        |
| Result from investing activities                                     | 0              | 0               |
| Capitalisation of non-current intangible assets                      | (182)          | (227)           |
| Sale/writing off of non-current tangible assets                      | 154            | 17              |
| Dividend and interest received                                       | 0              | 1               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          | <b>(1,038)</b> | <b>(40,136)</b> |
| Dividend paid  | (3,886)        | (3,886)         |
| Loans received/repaid  | 980            | 47,061          |
| Interest paid  | (2,213)        | (1,125)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES, NET</b>                     | <b>(5,119)</b> | <b>42,050</b>   |
| <b>CASH FLOWS FROM OPERATING, INVESTING AND FINANCING ACTIVITIES</b> | <b>26</b>      | <b>(240)</b>    |
| Cash and cash equivalents as of 1 January                            | 8              | 258             |
| <b>CASH AND CASH EQUIVALENTS AS OF 30 SEPTEMBER</b>                  | <b>34</b>      | <b>18</b>       |

## 10. Explanatory Notes

### 1 Summary of the basic accounting principles and practices

The public company AB “Vilniaus baldai” is a listed company in Lithuania.

The company manufactures furniture. As of 30 September 2006, the Company employed 868 people (on 30 September 2005, there were 1 079 employees).

The Company’s shares are traded on the Official List of the OMX Vilnius Stock Exchange.

#### *Compliance of the statements with established standards*

Financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Standards Board (IFRSB) and with the interpretations of the Standard Interpretation Committee of the IFRSB.

#### *Basis for drawing up of the statements*

In the financial statements all figures are provided in LTL thousand. The statements are drawn up applying the method of historical costs.

When drawing up the financial statements in accordance with the IFRS, the managers are required to make calculations and estimations to support the assumptions that have an impact on application of the accounting principles and on the amounts of assets and liabilities, income and costs. The calculations and related assumptions are based on historical experience and other factors that correspond to the present situation and on the basis of which conclusions concerning the carrying amount of assets and liabilities are made that cannot be decided on the basis of other sources. The actual amounts may differ from these assumptions.

The Company’s accounting policies are consistent with those used in the previous years.

#### *Amounts in foreign currencies are shown in the national currency*

Transactions in foreign currencies are recorded in litas at the official exchange rate on the day of the transaction. Accounts receivable and payable and cash in foreign currencies are translated into litas at the exchange rate on the balance sheet day. The differences in the currency exchange rates that occur after the transactions are recorded in the Income Statement.

### **Balance Sheet**

#### *Non-current tangible assets*

Non-current tangible assets, except buildings, are disclosed at acquisition or production cost, less accrued depreciation and impairment losses. The costs of internally developed assets include the costs of materials, direct labour costs and respective indirect production costs.

The value of buildings is disclosed at revaluation cost less accrued depreciation and impairment losses. Revaluation of buildings is performed every five years.

The costs suffered in an attempt to replace an element of tangible assets that is recorded separately, including costs of major repairs, undergo capitalisation. Other costs are capitalized only if they increase the expected economic benefit receivable from those assets. All other costs related to these assets are recorded in the Income Statement when incurred. Depreciation (amortization) of the non-current tangible assets is calculated on a straight – line basis over the estimated useful life of the assets and disclosed in the Income Statement, while its major elements are recorded separately. The projected useful economic life of the assets is as follows:

|                               |              |
|-------------------------------|--------------|
| – buildings                   | 40 years     |
| – non-current tangible assets | 6 – 10 years |
| – vehicles                    | 5 – 10 years |
| – other assets                | 2 – 6 years  |

#### *Non-current intangible assets*

Non-current intangible assets that consist of the acquired software are recorded at actual acquisition or production cost, less accrued amortisation. Amortization is calculated on a straight – line basis over a period of 3 years.

#### *Trade debtors and other accounts receivable*

Trade debtors and other accounts receivable are disclosed at costs after the deduction of the provisions for potential losses.

#### *Inventories*

Raw materials are recorded at the acquisition cost or at net realizable value, whichever is lower, less provisions for slow-turnover and outdated inventory items.

Construction in progress is disclosed at costs that include the purchase price of raw materials and assembling units, direct labour costs and related indirect production costs.

Completed products are disclosed at the standard sales price adjusted by an estimated average margin.

When calculating the costs the FIFO method is applied.

#### *Cash and cash equivalents*

For the purposes of this Cash Flow Statement, cash and cash equivalents include cash on hand and demand deposits.

#### *Impairment*

The carrying amount of the Company's assets, excluding inventories and the deferred tax assets, is tested at each balance sheet date for impairment when changes in circumstances indicate that the carrying amount may not be recoverable.

If any such indication exists, the recoverable amount of the assets is tested. The recoverable amount of the intangible assets not yet used is tested at each balance sheet date. Where the carrying amount of the asset exceeds the estimated recoverable amount, the impairment losses are recognized in the Income statement.

#### *Calculation of the recoverable amount*

The recoverable amount is its fair value less costs to sell or its value in use, whichever is higher. The asset value in use is calculated by discounting future cash flows to their present value applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### *Dividend*

Dividends are recorded as a liability in the period they are announced.

#### *Amounts carrying interest*

The amounts carrying interest are disclosed at nominal value, less the costs of related transactions. After the initial recognition, the amounts carrying interest are recorded at amortized value, showing the difference between the nominal and amortized value in the Income Statement during the lifetime of the liability in accordance with the effective interest rates.

### **Income Statement**

#### *Income*

Income from sales is recognised in the Income Statement when the material risk and benefit in relation to title has been accepted by the customer. Income from services is recognised in the Income Statement if they were rendered before the balance sheet date. Income is not recognized if there are doubts concerning recovery of the transaction amounts or related costs or there is a probability that the goods will be returned.

### *Production costs*

Production costs cover direct and indirect costs related to income from the sales of the year, including depreciation and remuneration. The costs of imported products include acquisition costs and transportation costs related to the sales of the year.

### *Income tax for the reporting year*

The income tax includes current and deferred taxes. Income tax is recorded in the Income Statement, except those instances when it is related to items directly recorded in shareholders' equity, in which case it is recorded in shareholders' equity.

The current income tax is the actual tax calculated on the annual taxable income, applying tax rates effective and applicable at the balance sheet date, including adjustments to tax amounts in the previous year, if any.

The deferred tax is calculated using the liability method of net positive timing differences between accounting and taxation balance sheet values of assets and liabilities. The deferred tax amount depends on the projected use of the assets and coverage of the liabilities in the future and projected tax rates at the balance sheet date.

Deferred tax allowances are recognized as an asset in the balance sheet to the extent that they are considered capable of being realized in the future. The deferred tax asset is discounted to the amount to be realized.

### *Segment reporting*

A segment is a significant part of the enterprise business, based on the products supplied or services rendered (business segment) or on the supply of products/ rendering of services within a particular economic environment that is subject to risks and returns particular for that economic environment.

### **Cash Flow Statement**

The cash flow statement shows inflow and outflow of cash during the reporting period and the financial status at the end of the year. The cash flows are classified according to three main types of activities, namely, operating, investing and financing activities.

In the Cash Flow Statement the operating cash flows are recorded using the indirect method, i.e. on the basis of income and costs as recorded in the Income Statement.

**Cash and cash equivalents** comprise cash at bank and on hand together with short-term securities recorded in current assets.

**Cash flows from operating activities** are recorded as a net profit or loss adjusted for the effects of non-cash transactions, changes in working capital, financial and extraordinary items, less income tax paid.

**Working capital** includes current assets, except those recorded in cash and cash equivalents, and current liabilities, except loans, taxes and dividends. Cash at bank and on hand together with short-term securities recorded in current assets are not included.

**Cash flows from investing** comprise increase and decrease in non-current assets. The increase is shown as costs. The decrease is recorded as the sales costs after deduction of the expenses.

**Cash flows from financing activities** include cash received from and paid to the shareholders, loans received and repaid, and long-term and short-term liabilities, not included into the working capital.

## **2 Segment reporting**

The Company's single business segment (the basis for the primary segment report format) pertains to furniture manufacturing. Information about the segments is provided with regard to the Company's geographical segments (the secondary segment report format).

Income and all assets according to geographical segments:

| LTL thousand             | Sales         |               | Total assets   |                |
|--------------------------|---------------|---------------|----------------|----------------|
|                          | 9 months 2006 | 9 months 2005 | 9 months 2006  | 9 months 2005  |
| Lithuania                | 4,725         | 2,002         | 116,756        | 120,036        |
| Other European countries | 76,580        | 76,417        | 0              | 0              |
|                          | <u>81,305</u> | <u>78,419</u> | <u>116,756</u> | <u>120,036</u> |

**3 Distribution costs**

|                                   | 9 months 2006 | 9 months 2005 |
|-----------------------------------|---------------|---------------|
|                                   | LTL thousand  | LTL thousand  |
| Remuneration and social insurance | 537           | 784           |
| Export costs (transportation)     | 87            | 162           |
| Depreciation                      | 95            | 100           |
| Business trips                    | 19            | 47            |
| Advertising                       | 11            | 56            |
| Other                             | 127           | 243           |
|                                   | <u>876</u>    | <u>1,392</u>  |

**4 Administrative costs**

|                                   | 9 months 2006 | 9 months 2005 |
|-----------------------------------|---------------|---------------|
|                                   | LTL thousand  | LTL thousand  |
| Remuneration and social insurance | 1,833         | 1,949         |
| Depreciation                      | 372           | 371           |
| Employee training and other       | 261           | 40            |
| Utilities and communication       | 160           | 200           |
| Amortization                      | 208           | 101           |
| Insurance                         | 108           | 95            |
| Business trips                    | 50            | 30            |
| Bank services                     | 24            | 81            |
| Repairs and maintenance costs     | 17            | 30            |
| Professional services             | 8             | 8             |
| Other                             | 757           | 882           |
|                                   | <u>3,798</u>  | <u>3,787</u>  |

**5 Income from ancillary activities, net**

|                               | 9 months 2006 | 9 months 2005 |
|-------------------------------|---------------|---------------|
|                               | LTL thousand  | LTL thousand  |
| Lease income                  | 266           | 76            |
| Sale of waste materials       | 49            | 30            |
| Written off problematic debts | (182)         | (198)         |
| Other income and losses       | (289)         | (341)         |
|                               | <u>(156)</u>  | <u>(433)</u>  |

## 6 Financial income, net

|                                     | 9 months 2006  | 9 months 2005  |
|-------------------------------------|----------------|----------------|
|                                     | LTL thousand   | LTL thousand   |
| Bank loan interest costs            | (2 213)        | (1 125)        |
| Amortisation of future income       | 4              | 19             |
| Currency exchange profit, less loss | (29)           | (7)            |
| Other income and losses             | 17             | 14             |
|                                     | <u>(2 221)</u> | <u>(1,099)</u> |

## 7 Earnings per share

The basic portion of earnings per share is computed by dividing net shareholders' earnings by the weighted average number of common shares outstanding during the year.

| LTL thousand                                 | 30.09.2006    | 30.09.2005  |
|--|---------------|-------------|
| Net annual profit                            | (193)         | 2,566       |
| Weighted average number of the shares (thou) | (3,886)       | 3,886       |
| Earnings per share (LTL)                     | <u>(0.05)</u> | <u>0.66</u> |

The Company has issued no other securities that could be potentially converted into common shares. The earnings per share and the earnings per potentially convertible share is the same.

## 8 Non-current tangible assets

| LTL thousand                          | Buildings     | Machinery and equipment | Vehicles     | Other non-current assets | Constructi on in progress | Total         |
|---------------------------------------|---------------|-------------------------|--------------|--------------------------|---------------------------|---------------|
| Costs as of 1 January                 | 32,112        | 61,402                  | 1,381        | 3,083                    | 33                        | 98,011        |
| Increase                              | 0             | 827                     | 2            | 132                      | 411                       | 1, 372        |
| Sales                                 | 0             | (133)                   | (56)         | (24)                     | 0                         | (213)         |
| Writing off                           | 0             | (124)                   | 0            | (111)                    | 0                         | (235)         |
| Regrouping                            | (100)         | 100                     | 0            | 0                        | (404)                     | (404)         |
| Costs as of 30 September              | <u>32,012</u> | <u>62,072</u>           | <u>1,327</u> | <u>3,080</u>             | <u>40</u>                 | <u>98,531</u> |
| Depreciation as of 1 January          | 7,864         | 19,273                  | 472          | 1,483                    | 0                         | 29,092        |
| Depreciation during half of the year  | 674           | 5 320                   | 103          | 310                      | 0                         | 6, 407        |
| Sales                                 | 0             | (133)                   | (56)         | (9)                      | 0                         | (198)         |
| Writing off                           | 0             | (86)                    | 0            | (105)                    | 0                         | (191)         |
| Regrouping                            | (5)           | 0                       | 0            | 0                        | 0                         | -5            |
| Depreciation as of 30 September       | <u>8,533</u>  | <u>24,374</u>           | <u>519</u>   | <u>1,679</u>             | <u>0</u>                  | <u>35,105</u> |
| NET CARRYING VALUE AS OF 30 SEPTEMBER | <u>23,479</u> | <u>37,698</u>           | <u>808</u>   | <u>1,401</u>             | <u>40</u>                 | <u>63,426</u> |
| NET CARRYING VALUE AS OF 1 JANUARY    | <u>24,248</u> | <u>42,129</u>           | <u>909</u>   | <u>1,620</u>             | <u>33</u>                 | <u>68,939</u> |
| Depreciation period                   | 40 years      | 6-10 years              | 5 - 10 years | 2 - 6 years              |                           |               |

Depreciation was broken down as follows:

| LTL thousand                             | 30.09.2006 | 30.09.2005 |
|--|------------|------------|
| Production and product development costs | 5,940      | 4,280      |
| Sales, administrative and other costs    | 467        | 471        |
| TOTAL                                    | 6,407      | 4,751      |

## 9 Investments

|   | 30.09.2006   | 30.09.2005   |
|---|--------------|--------------|
| LTL thousand                                  | LTL thousand | LTL thousand |
| Shares of UAB "Girių Bizonas"                 | 24,551       | 25,000       |
| Part of long-term loan to UAB "Girių Bizonas" | 0            | 0            |
| Shares of UAB "Ari-Lux"                       | 2            | 0            |
| Other   | 1            | 1            |
| NET CARRYING VALUE AS OF 30 SEPTEMBER         | 24,554       | 25,001       |

More detailed information on the loan to UAB "Girių Bizonas" is provided in Note 11.

## 10 Inventories

|                                       | 30.09.2006   | 30.09.2005   |
|---------------------------------------|--------------|--------------|
| LTL thousand                          | LTL thousand | LTL thousand |
| Raw materials                         | 11,391       | 8,839        |
| Production in progress                | 3,509        | 2,766        |
| Finished products                     | 3,279        | 2,316        |
| Goods for resale                      | 127          | 145          |
| NET CARRYING VALUE AS OF 30 SEPTEMBER | 18,306       | 14,066       |

Raw materials include wood, fittings and accessories, plastic elements, chemicals and other materials used in production.

## 11 Other accounts receivable

|   | 30.09.2006   | 30.09.2005   |
|---|--------------|--------------|
| LTL thousand  | LTL thousand | LTL thousand |
| Advance income tax                                  | 1,582        | 0            |
| Loan to supplier                                    | 0            | 1,125        |
| Amounts receivable from the state (VAT recoverable) | 720          | 765          |
| Other amounts receivable and future costs           | 622          | 579          |
| NET CARRYING VALUE AS OF 30 SEPTEMBER               | 2,924        | 3,904        |

On 4 May 2004, the Company extended an interest-free loan of LTL 3,000 thousand to one of its largest suppliers, UAB "Girių Bizonas". The loan is repaid in monthly stalls in the amount of LTL 125 thousand, starting from 1 July 2004. On 30 September 2006, the payment of the loan had been completed.

## 12 Cash and cash equivalents

|  | 30.09.2006   | 30.09.2005   |
|--|--------------|--------------|
|  | LTL thousand | LTL thousand |
| Cash in banks                                      | 28           | 7            |
| Cash on hand                                       | 6            | 15           |
| Cash and cash equivalents at the end of the period | 34           | 18           |

## 13 Capital and reserves

### Share capital

The share capital is made up of 3,886,267 common shares of the nominal value of LTL 4, while the total value of the share capital amounts to LTL 15,545,068.

### Legal reserve

The reserve of LTL 1,222 thousand is the legal reserve made under the laws of the Republic of Lithuania. An allocation of at least 5% of the net profit must be made into the legal reserve out of the profit to be appropriated every year until the legal reserve reaches 10% of the authorized capital.

## 14 Loans and other borrowings, secured with pledged assets

|   | 30.09.2006   | 30.09.2005   |
|---|--------------|--------------|
|   | LTL thousand | LTL thousand |
| NON-CURRENT LIABILITIES                             |              |              |
| Long-term loan                                      | 39,199       | 48 714       |
| NET CARRYING VALUE AS OF 30 SEPTEMBER               | 39,199       | 48,714       |
| SHORT-TERM LIABILITIES, SECURED WITH PLEDGED ASSETS |              |              |
| Current portion of loans                            | 20,167       | 6,047        |
| NET CARRYING VALUE AS OF 30 SEPTEMBER               | 20,167       | 6,047        |

### Terms and maturity

On 8 August 2005, the Company signed a credit extension agreement with AS "Sampo pank". The agreement provided that a credit line in the amount of EUR 4,924 thousand was extended to the Company to acquire a 25% holding in UAB "Girių bizonas". The loan matures on 1 July 2012; the annual interest rate on the credit amounts to 6 months' EURIBOR + 1.5%.

On 13 May 2005, the Company extended its credit line agreement with AB "Sampo bankas" concerning refinancing of liabilities to AB "SEB Vilnius bankas", financing of the working capital and extension of tender guarantees. The maximum credit line amounts to LTL 14,447 thousand and matures on 25 February 2007. The annual interest rate on the credit equals 6 months' VILIBOR + 1.5%.

The credit agreement with AB "Sampo bankas" was extended on 3 September 2004. The agreement guaranteed a loan extension in the amount of EUR 2,540 thousand to refinance liabilities to UAB "SEB VB lizingas" and the loan issued by AB "Sampo bankas" as well as to finance investment into plant and equipment. The loan matures on 25 February 2010. The annual interest rate on the credit is 6 months' EURIBOR + 1.3%.

On 28 December 2004, the Company signed a credit agreement with AB "Sampo bankas" concerning extension of EUR 4,650 thousand credit limit to finance investment into production buildings and



equipment. The term of maturity is 28 December 2011; the annual interest rate on the credit equals 6 months' EURIBOR + 1.5%.

Schedule of payment for financial liabilities, secured with pledged assets:

| LTL thousand                       | Total amount payable as of 30 September 2006 | 2006         | 2007          | 2008-2012     |
|------------------------------------|--|--------------|---------------|---------------|
| Loan of EUR 2,540 thousand         | 5,794  | 426          | 1,700         | 3,668         |
| Loan of EUR 4,650 thousand         | 14,718                                       | 446          | 1,784         | 12,488        |
| Loan of EUR 4,924 thousand         | 17,001                                       | 708          | 2,832         | 13,461        |
| Used credit of LTL 14,500 thousand | 13,851                                       | 1,351        | 12,500        | 0             |
| <b>TOTAL</b>                       | <b>51,364</b>                                | <b>2,931</b> | <b>18,816</b> | <b>29,617</b> |

## 15 Other creditors

|  | 30.09.2006   | 30.09.2005   |
|--|--------------|--------------|
|  | LTL thousand | LTL thousand |
| Holiday pay reserve                          | 983          | 631          |
| Remuneration                                 | 804          | 779          |
| Operating taxes                              | 213          | 149          |
| Social insurance                             | 539          | 549          |
| AB "Rytų skirstomieji tinklai" (energy)      | 356          | 381          |
| Dividend for the previous year               | 37           | 37           |
| Income tax liability                         | 11           |              |
| Other accounts payable and accrued taxes     | 1,961        | 328          |
| <b>NET CARRYING VALUE AS OF 30 SEPTEMBER</b> | <b>4,904</b> | <b>3,638</b> |

## 16 Personnel costs

|  | 30.09.2006    | 30.09.2005    |
|--|---------------|---------------|
|  | LTL thousand  | LTL thousand  |
| Production and product development costs | 14,508        | 13,471        |
| Sales, administrative and other costs    | 2,370         | 2,733         |
|  | <b>16,878</b> | <b>16,204</b> |

## Currency risk

The Company's exposure to the currency risk when selling, purchasing and borrowing in foreign currencies, except EUR, is mostly related to the US dollar.

Accounts receivable and payable in foreign currencies as of 30 September 2006 may be broken down as follows:

| LTL thousand       | EUR             | USD          | SEK            | Other       |
|--------------------|-----------------|--------------|----------------|-------------|
| Trade debtors      | 795             | 224          | 0              | 0           |
| Cash               |                 | 0            | 0              | 1           |
| Borrowings         | (37,515)        | 0            | 0              | 0           |
| Debts to suppliers | (1,958)         | (332)        | (1,178)        | (97)        |
|                    | <b>(38,678)</b> | <b>(108)</b> | <b>(1,178)</b> | <b>(97)</b> |

**Interest risk**

VILIBOR and EURIBOR related floating interest rates are applied to the loans extended to the Company.

As of 30 September 2006, the Company used no financial instruments as interest risk hedging.

#### IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND OTHER INFORMATION

##### 11. Material events in the issuer's activity

During the first quarter of 2006, the sales of AB "Vilniaus baldai" amounted to LTL 26,416 thousand; during the same period in 2005 they were LTL 23,773 thousand. In the period of January –March 2006 the Company's profit before taxes comprised LTL 968 thousand, and during the same period of 2005 it made up LTL 438 thousand.

The Annual General Meeting (AGM) of AB "Vilniaus baldai" shareholders was held on 14 April 2006. The AGM resolved to:

- approve, taking into account the auditor's opinion, the Company's Management Report and financial statements for the year 2005;
- approve the Company's profit appropriation for the year 2005 and state the following:
  - Retained earnings at the beginning of the financial year: LTL 6,206,181;
  - Net profit of the financial year 2005: LTL 3,470,487;
  - Transfers from reserves: LTL 232,425;
  - Total profit to be appropriated: LTL 9, 909,093;
  - Allocate LTL 173,524 to legal reserve as provided in Par. 5 of Article 59 of the Law on Companies of the Republic of Lithuania;
  - Allocate no funds to other reserves;
  - Profit to be distributed as annual payment (tantemes) to members of the Board" – none;
  - Retained earnings at the end of the financial year 2005 transferred to the financial year 2006: LTL 5,849,302.
- The agenda issue concerning selection of the audit firm and remuneration for the audit services was not discussed because of failure to timely complete the auditor's selection procedure. It was resolved to discuss this issue at the following general shareholders' meeting.

The AGM resolved to allocate LTL 3,886,267 for payment of dividend in the amount of LTL 1 per share.

On 24 July 2006, the Board of AB "Vilniaus baldai" approved the unaudited financial statements of AB "Vilniaus baldai" for the first half of 2006, drawn up in accordance with the International Financial Reporting Standards.

In the period of January–June 2006, the sales of AB "Vilniaus baldai" made up LTL 2,658 thousand; in the same period of 2005 they were LTL 48,480 thousand.

Profit before taxes of AB "Vilniaus baldai" in January–June 2006 amounted to LTL 571 thousand. In calculating the half-yearly profit a loss of LTL 235 thousand was considered, resulting from the investment into UAB "Girių bizonas" shares calculated under the equity method. Profit before taxes, interest and depreciation (EBITDA) totalled LTL 6.6 million; a year ago it was LTL 4.9 million.

On 24 July 2006, AB "Vilniaus baldai", having evaluated the changes in the product basket and terms of launching new products, approved assumptions concerning the projections of AB "Vilniaus baldai" in 2006:

1. Sales: LTL 135 million;
2. Profit before taxes: LTL 4.2 million;
3. EBITDA: LTL 15.8 million (EUR 4.6m)

Adjustments were made to the previously announced projections concerning the sales of AB “Vilniaus baldai” of LTL 140 million and the profit before taxes of LTL 11 million.

On 7 September 2006, the Board of AB “Vilniaus baldai” passed a resolution to remove from office Viktoras Majauskas, Director General of AB “Vilniaus baldai”. Nerijus Pacevičius was appointed to take the position of Director General of AB “Vilniaus baldai” from 8 September 2006.

In the period of January–September 2006, the sales of AB “Vilniaus baldai” amounted to LTL 81,305 thousand (cf. to LTL 78,420 thousand in the same period of 2005).

The net loss of AB “Vilniaus baldai” in January–September 2006 made up LTL 193 thousand, while the same period in 2005 generated a net profit of LTL 2,566 thousand. The Company’s nine months’ profit was adjusted taking into account the value of UAB “Girių bizonas” shares calculated under the equity method. The profit before taxes, interest and depreciation (EBITDA) totalled to LTL 9.1 million; a year ago it was LTL 9.2 million.

On 20 October 2006, a General Meeting of AB “Vilniaus baldai” shareholders resolved to elect UAB “Ernst & Young Baltic” the Company’s auditor for a period of two years and set the threshold of the remuneration (before VAT) at LTL 52,000. The Board was authorised to negotiate the terms of payment for the audit services and Nerijus Pacevičius, the Company’s Director General, was authorised to sign the contract with the audit firm.

## 12. Secondary trading in the issuer’s securities

All shares issued by AB “Vilniaus baldai” are listed on the Official List of the OMX Vilnius Stock Exchange (hereinafter – VSE).

Table 12.1. Main characteristics of the shares of AB “Vilniaus baldai”

| Type of shares             | ISIN code    | Number of shares | Nominal value, LTL | Total nominal value, LTL |
|----------------------------|--------------|------------------|--------------------|--------------------------|
| Ordinary registered shares | LT0000104267 | 3,886,267        | 4                  | 15,545,068               |

Table 12.2. Trading in the Company’s shares on the VSE

| Reporting period              | Price, LTL |        |              | Turnover, LTL |        |              | Date of the last session | Total turnover |              |
|-------------------------------|------------|--------|--------------|---------------|--------|--------------|--------------------------|----------------|--------------|
|                               | Highest    | Lowest | Last session | Highest       | Lowest | Last session |                          | Units          | LTL          |
| 2005, 1 <sup>st</sup> quarter | 47.50      | 36.00  | 40.85        | 227,964.00    | 0      | 6,060.20     | 31.03.2005               | 63,967         | 2,585,964.57 |
| 2005, 2 <sup>nd</sup> quarter | 41.00      | 37.20  | 37.80        | 309,131.95    | 0      | 7,560.00     | 30.06.2005               | 34,423         | 1,353,014.37 |
| 2005, 3 <sup>rd</sup> quarter | 39.00      | 34.00  | 36.50        | 402,632.50    | 0      | 402,632.50   | 30.09.2005               | 66,328         | 2,417,988.16 |
| 2005, 4 <sup>th</sup> quarter | 37.00      | 33.33  | 36.00        | 413,720.80    | 0      | 0            | 31.12.2005               | 53,487         | 1,925,289.47 |
| 2006, 1 <sup>st</sup> quarter | 37.02      | 30.30  | 35.00        | 235,416.00    | 0      | 0            | 31.03.2006               | 48,331         | 1,649,973.80 |
| 2006, 2 <sup>nd</sup> quarter | 34.90      | 17.00  | 20.00        | 148,951.11    | 0      | 2,000.00     | 30.06.2006               | 45,467         | 1,113,294.49 |
| 2006, 3 <sup>rd</sup> quarter | 24.00      | 17.76  | 18.26        | 481,823.00    | 0      | 92,423.00    | 29.09.2006               | 59,851         | 1,197,755.55 |



Fig. 9.1. Trading in the Company’s shares (01.01.2005 – 29.09.2006)

Table 9.3. Capitalization of the Company’s shares

| <b>Date of the last session</b> | <b>Capitalization (LTL)</b> |
|---------------------------------|-----------------------------|
| 31.03.2005                      | 158,754,006.95              |
| 30.06.2005                      | 146,900,892.60              |
| 30.09.2005                      | 141,848,745.50              |
| 30.12.2005                      | 139,905,612.00              |
| 31.03.2006                      | 136,019,345.00              |
| 30.06.2006                      | 77,725,340.00               |
| 29.09.2006                      | 70,963,235.42               |