

AB GRIGIŠKĒS

**Independent Auditors' Report and
Financial Statements
for the year ended 31 December 2003**

AB GRIGIŠKĒS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED INCOME STATEMENT	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
CONSOLIDATED CASH FLOWS STATEMENT	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	8 – 23

INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Grigiškės:

We have audited the accompanying consolidated balance sheets of AB Grigiškės and Subsidiary (the Group) as of 31 December 2003 and 2002 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2003 and 2002 and the results of its operations, changes in equity and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

UAB "Deloitte & Touche"

Vilnius, Lithuania

26 April 2004

AB GRIGIŠKĒS

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
ASSETS			
Current assets			
Cash	2	1,139	611
Prepayments and deferred charges		352	594
Trade and other receivables	3	18,149	13,312
Inventories	4	8,145	9,922
Total current assets		27,785	24,439
Non-current assets			
Tangible fixed assets	5	43,090	41,511
Intangible fixed assets	6	356	350
Negative goodwill	7	(2,526)	(432)
Interest in associate	8	3,793	-
Other receivable	3	2,811	46
Total non-current assets		47,524	41,475
TOTAL ASSETS		75,309	65,914
LIABILITIES, EQUITY AND MINORITY INTEREST			
Current liabilities			
Borrowings	9	2,374	4,749
Current portion of finance lease liabilities	10	697	776
Payables and accrued charges	11	14,595	12,769
Total current liabilities		17,666	18,294
Non-current liabilities			
Borrowings	9	4,039	6,505
Finance lease liabilities	10	1,899	2,454
Deferred tax liability	18	787	796
Other payable	12	2,811	139
Total non-current liabilities		9,536	9,894
TOTAL LIABILITIES		27,202	28,188
Capital and reserves			
Share capital	13	39,957	37,300
Share premium	13	2,708	-
Legal reserve	13	2,725	2,145
Accumulated profit (deficit)		2,717	(6,954)
Total equity		48,107	32,491
MINORITY INTEREST		-	5,235
TOTAL LIABILITIES, EQUITY AND MINORITY INTEREST		75,309	65,914

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

The financial statements were approved by the management on 26 April 2004 and signed on its behalf by:

General Director G. Pangonis

Chief Accountant N. Šilerienė

AB GRIGIŠKĖS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
Sales	14	91,853	77,380
Cost of sales	14	<u>(66,619)</u>	<u>(55,800)</u>
Gross profit		25,234	21,580
Net other operating income	15	5,931	455
Selling expenses	16	(8,752)	(5,446)
Administrative expenses	17	(10,524)	(10,791)
Reversal of impairment loss	5	<u>1,157</u>	<u>234</u>
Profit from operations		13,046	6,032
Share of loss of associate		(117)	-
Interest income		28	2
Interest expense		(841)	(1,047)
Net foreign exchange loss		<u>(365)</u>	<u>(477)</u>
Profit before income tax		11,751	4,510
Income tax expense	18	<u>(1,437)</u>	<u>(122)</u>
Net profit after income tax		10,314	4,388
Minority interest		<u>(130)</u>	<u>(631)</u>
NET PROFIT		<u>10,184</u>	<u>3,757</u>
Basic earnings per share (in LTL)		<u>0.27</u>	<u>0.10</u>

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AB GRIGIŠKĒS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital LTL'000	Share premium LTL'000	Legal reserve LTL'000	Revaluation reserve LTL'000	Accumulated profit (deficit) LTL'000	Total LTL'000
At 31 December 2001	37,300	-	2,145	-	(10,711)	28,734
Net profit for the year	-	-	-	-	3,757	3,757
At 31 December 2002	37,300	-	2,145	-	(6,954)	32,491
Issue of shares (Note 13 and 19)	2,657	2,708	-	-	-	5,365
Transfers to reserves	-	-	580	-	(580)	-
Fixed assets revaluation	-	-	-	67	-	67
Disposal of fixed assets	-	-	-	(67)	67	-
Net profit for the year	-	-	-	-	10,184	10,184
At 31 December 2003	39,957	2,708	2,725	-	2,717	48,107

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

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General Director G. Pangonis

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AB GRIGIŠKĖS

CONSOLIDATED CASH FLOWS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 LTL'000	2002 LTL'000
OPERATING ACTIVITIES		
Profit before income tax	11,751	4,510
Adjustments for:		
Depreciation and amortization	4,185	3,642
Negative goodwill released to income	(136)	(108)
Share of results of associate	145	-
Interest income	(28)	(2)
Interest expense	841	1,047
Net foreign exchange loss	365	28
(Profit)/ loss on disposal of fixed assets	(5,151)	448
Reversal of impairment losses	(1,157)	(234)
(Decrease)/increase in provision for doubtful accounts receivable	62	(878)
	<u>10,877</u>	<u>8,453</u>
Changes in operating assets and liabilities:		
Decrease in prepayments and deferred charges	242	398
Increase in accounts receivable	(3,427)	(548)
Decrease/(increase) in inventories	1,915	(2,414)
Increase in payables and accrued charges	2,945	876
Cash generated by operations	<u>12,552</u>	<u>6,765</u>
Interest paid	(854)	(1,057)
Income taxes paid	(245)	-
Net cash from operating activities	<u>11,453</u>	<u>5,708</u>
INVESTING ACTIVITIES		
Purchase of fixed tangible and intangible assets, net	(4,208)	(5,079)
Interest received	28	2
Acquisition of subsidiary	-	311
Acquisition of investment in an associate	(23)	-
Proceeds from long-term receivables	-	15
Net cash used in investing activities	<u>(4,203)</u>	<u>(4,751)</u>
FINANCING ACTIVITIES		
Repayments of borrowings	(3,831)	(1,706)
Proceeds from borrowings	-	930
(Decrease)/increase in bank overdraft	(1,010)	301
Repayments of finance lease liabilities	(1,881)	(832)
Net cash used in financing activities	<u>(6,722)</u>	<u>(1,307)</u>
Net increase/(decrease) in cash	528	(350)
CASH, BEGINNING OF THE YEAR	<u>611</u>	<u>961</u>
CASH, END OF THE YEAR	<u>1,139</u>	<u>611</u>

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

The financial statements were approved by the management on 26 April 2004 and signed on its behalf by:

General Director G. Pangonis

Chief Accountant N. Šilerienė

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. ACCOUNTING POLICIES

General information

AB Grigiškės (the Company) was established in 1923. Former state owned company AB Grigiškės was privatized on 3 December 1991 and registered as a joint stock company on 2 April 1992. The Company's shares are traded on the Lithuanian National Stock Exchange. The address of its registered office is as follows:

Vilniaus 10,
Grigiškės 4058,
Vilnius Municipality,
Lithuania.

The Group produces fiberboard, corrugated cardboard and paper articles.

At 31 December 2003 the Company's shareholders were as follows:

	<u>Number of shares</u>	<u>Ownership share %</u>
Lithuanian legal entities	21,916,088	54.85
Lithuanian individuals	13,539,013	33.88
Foreign legal entities	4,443,695	11.12
Foreign individuals	57,861	0.15
Total	39,956,657	100.00

Main Shareholders:

	<u>Number of shares</u>	<u>Ownership share %</u>
Ginvildos investicija	18,649,999	46.68
Rosemount Holdings LLC	3,554,319	8.89
Mišeikis Dailius Juozapas	2,041,245	5.11
Iš viso	24,245,563	60.68

The Group employed 965 people as of 31 December 2003 (the Company employed 1,115 people as of 31 December 2002).

Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The financial statements have been prepared on the historical cost basis, as modified by the indexation of certain fixed assets. The principal accounting policies are set out below.

Principles of consolidation

The financial statements as of 31 December 2003 include the accounts of the Company and the subsidiary AB Naujieji Verkiai's income statement for the period until the date of merger of the subsidiary (from 1 January 2003 to 30 September 2003).

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

The financial statements for the year ended 31 December 2002 include the accounts of the Company and subsidiary AB Naujieji Verkiai.

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders' is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The result of the subsidiary acquired during the year are included in the consolidated income statement from the date of acquiring control or the effective date of the acquisition of subsidiary. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

All significant intercompany balances, transactions, unrealized surpluses and deficits on transactions between Group enterprises have been eliminated.

Interest in Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Interests in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Any excess (deficiency) of the cost of acquisition over (below) the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill (negative goodwill).

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The portion of the negative goodwill not related to the identifiable expected future losses and expenses is amortized on a straight-line basis over a period of 5 years. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable/amortisable assets.

Cash

Cash includes cash on hand and in banks.

Financial instruments

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

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated unrecoverable amounts.

Bank borrowings

Bank loans and overdrafts are recorded at their nominal value.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Trade payables

Trade payables are stated at their nominal value.

Fair value of financial instruments

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

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

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

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

Inventories

Inventories consist mainly of materials and finished goods. Inventories are stated at the lower of cost or net realizable value. Cost of materials is determined by the first-in, first-out method and the cost of finished goods is determined by the weighted average cost method. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost as adjusted for the indexation of certain assets, less accumulated depreciation and impairment losses. Depreciation, including amortization of leasehold improvements, is computed using the straight-line method over the estimated useful lives of the related assets.

Depreciation is provided in equal monthly installments except for the month placed in service over the expected useful lives as follows:

Buildings	40 – 80	years
Plant, machinery and equipment	6 – 22	years
Vehicles	5 – 10	years
Other equipment and other fixed assets	2 – 12	years
Intangible assets	2 – 4	years

All assets in excess of LTL 500 are capitalized. Gains and losses on disposal of fixed assets are recognized in the year of disposal.

Impairment of assets

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Borrowing costs

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

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

Leasing

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

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

Revenue and expense recognition

Revenues are recognized when goods are delivered and title is passed.

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

Expenses are charged to operations as incurred.

Earnings per share

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2003 and 2002 was 37,300 thousand. The Group had no dilutive options outstanding during 2003 and 2002 or at 31 December 2003 and 2002.

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Foreign currencies

The Group performs the majority of transactions in the national currency of Lithuania, the Litas (LTL). Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rates used for principal currencies as of 31 December 2003 and 2002 were as follows:

	2003		2002
1 USD	= 2.7621 LTL	1 USD	= 3.3114 LTL
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL

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

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity.

Use of Estimates

The preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 2002 amounts have been reclassified to conform to the 2003 basis of presentation.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

2. CASH

At 31 December cash consisted of the following:

	2003 LTL'000	2002 LTL'000
Cash at bank	1,028	550
Cash on hand	111	61
Total	1,139	611

The Group's bankers have a floating charge over the Group's cash inflows to current accounts at bank to secure loans granted to the Group.

3. TRADE AND OTHER RECEIVABLES

At 31 December trade and other receivables consisted of the following:

	2003 LTL'000	2002 LTL'000
Trade receivables	19,086	14,679
Other receivables	4,002	846
	23,088	15,525
Less: amount receivable for settlement after 12 months	(2,811)	(46)
Total amount receivable for settlement within 12 months	20,277	15,479
Less: Provisions for doubtful amounts	(2,128)	(2,167)
Total amount receivable for settlement within 12 months	18,149	13,312

The movement for the years in the provision for doubtful accounts receivable consisted of the following:

	2003 LTL'000	2002 LTL'000
At 1 January	2,167	5,723
Increase of provisions	77	49
Reversal of provisions	(19)	(894)
Write-off of bad debts	(97)	(2,711)
At 31 December	2,128	2,167

Other receivables include an amount of LTL'000 3,163 for land resold. In year 2003, the Group has resold the purchased land at the same conditions as determined in land purchase agreement. The payment schedule is from year 2004 to 2012. The annual interest rate started to calculate from 1 January 2004 is 2% (Note 12).

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

4. INVENTORIES

At 31 December inventories consisted of the following:

	2003 LTL'000	2002 LTL'000
Materials	3,671	4,832
Finished goods	3,378	3,989
Work in progress	879	971
Fixed assets for resale	138	-
Goods in transit	79	130
Total	8,145	9,922

5. TANGIBLE FIXED ASSETS

At 31 December tangible fixed assets consisted of the following:

	Buildings LTL'000	Equip- ment LTL'000	Vehicles LTL'000	Assets under finance lease LTL'000	Construc- tion in progress LTL'000	Total LTL'000
MODIFIED COST						
31 December 2002	29,011	50,223	3,206	3,657	2,599	88,696
Additions	92	1,430	172	1,245	4,810	7,749
Disposals	(4,519)	(3,187)	(912)	(41)	-	(8,659)
Transfers	991	4,710	141	(1,109)	(4,733)	-
31 December 2003	25,575	53,176	2,607	3,752	2,676	87,786
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
31 December 2002	12,238	31,213	2,053	229	1,452	47,185
Charge for the year	407	2,895	350	418	-	4,070
Impairment loss/(reversal)	(118)	(1,151)	112	-	-	(1,157)
Disposals	(2,189)	(2,532)	(667)	(14)	-	(5,402)
Transfers	214	16	81	(308)	(3)	-
31 December 2003	10,552	30,441	1,929	325	1,449	44,696
CARRYING AMOUNT						
31 December 2002	16,773	19,010	1,153	3,428	1,147	41,511
31 December 2003	15,023	22,735	678	3,427	1,227	43,090

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

The Group has pledged buildings and equipment having a carrying amount of approximately LTL'000 9,345 (2002: LTL'000 14,713) to secure banking facilities granted to the Group.

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

At 31 December 2003 the provisions for impairment of assets amounts to LTL'000 2,289 (2002: LTL'000 3,446).

6. INTANGIBLE FIXED ASSETS

At 31 December intangible fixed assets consisted of the following:

	Software and other LTL'000
COST	
31 December 2002	451
Additions	121
Write-off	(149)
31 December 2003	423
AMORTISATION	
31 December 2002	101
Charge for the year	115
Write-off	(149)
31 December 2003	67
CARRYING AMOUNT	
31 December 2002	350
31 December 2003	356

Amortization of intangible assets is included within operating expenses.

7. NEGATIVE GOODWILL

At 31 December negative goodwill consisted of the following:

	LTL'000
GROSS AMOUNT	
31 December 2002	(540)
Addition on acquisition of an associate	(2,230)
31 December 2003	(2,770)
RELEASED TO INCOME	
31 December 2002	108
Released in the year	136
31 December 2003	244
CARRYING AMOUNT	
31 December 2002	(432)
31 December 2003	(2,526)

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

The release to income of negative goodwill of LTL'000 108 is included administrative expenses. The release to income of negative goodwill (related to acquisition of an associate) of LTL'000 28 is included within share of results of associate.

8. INTEREST IN ASSOCIATE

Share of net assets in associate is as follows:

	2003 LTL'000	2002 LTL'000
Acquisition cost	1,708	-
Negative goodwill	2,230	-
Share of loss of associate	(145)	-
Total	3,793	-

The Group has interest in associate UAB Baltwood. At 31 December 2003 proportion of ownership interest and voting power held is 49.97 %. UAB Baltwood is engaged in wood processing.

9. BORROWINGS

	2003 LTL'000	2002 LTL'000
The borrowings are repayable as follows:		
Within one year	2,374	4,749
In the second year	2,225	2,466
In the third to fifth years inclusive	1,814	4,039
	6,413	11,254
Less: amount due for settlement within 12 months	(2,374)	(4,749)
Amount due for settlement after 12 months	4,039	6,505

Analysis of borrowings by currency:

LTL	6,379	10,856
USD	34	213
EUR	-	185
Total	6,413	11,254

Borrowings of LTL'000 34 were arranged at floating interest rates of approximately 4.13% (2002: LTL'000 652 at 6.7%). All other borrowings were arranged at fixed interest rates averaging between 5-8.5% (2002: 6.25-10.13%).

The borrowings have been secured by a charge over the Group's cash inflows to current accounts at bank and by pledging certain fixed assets.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

According to management, the fair value of the Company's borrowings at 31 December 2003 approximated LTL'000 6,349 (2002: LTL'000 11,814).

The fair value of borrowings is estimated by discounting the expected future cash flows using the current market rates at which similar borrowings would be made to borrowers with similar credit ratings and for the same remaining maturities.

10. FINANCE LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2003 LTL'000	2002 LTL'000	2003 LTL'000	2002 LTL'000
Amounts payable under finance leases:				
Within one year	831	801	697	776
In the second to fifth years inclusive	2,051	2,604	1,899	2,454
Sub-total	<u>2,882</u>	<u>3,405</u>	<u>2,596</u>	<u>3,230</u>
Less: future finance charges	<u>(286)</u>	<u>(175)</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease liabilities	<u>2,596</u>	<u>3,230</u>	<u>2,596</u>	<u>3,230</u>

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

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

11. PAYABLES AND ACCRUED CHARGES

At 31 December payables and accrued charges consisted of the following:

	2003 LTL'000	2002 LTL'000
Trade payables	10,595	10,073
Taxes, salaries and social insurance payable	2,335	1,706
Accrued charges	1,012	809
Current portion of long term payable (Note 12)	352	28
Advances paid	150	51
Other payables	151	102
Total	<u>14,595</u>	<u>12,769</u>

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

12. OTHER PAYABLES

At 31 December other payables are as follows:

	2003 LTL'000	2002 LTL'000
Within one year	352	28
In the second year	351	139
In the third to fifth years inclusive	1,054	-
After five years	1,406	-
Total	3,163	167
Less: current portion	(352)	(28)
Total non-current payables	2,811	139

The Group has purchased a land plot with delayed payment till 2012. The annual interest rate started to calculate from 1 January 2004 is 2% (Note 3).

13. SHARE CAPITAL, SHARE PREMIUM AND RESERVES

As of 31 December 2003 the issued share capital consisted of 39,957,657 (2002: 37,300,000) ordinary shares at a par value of LTL 1 each. As of 31 December 2003 and 2002 all shares were fully paid.

The Company has issued 2,657,657 share emission in exchange of shares of AB Naujieji Verkiai for the purpose of obtaining 100% interest in AB Naujieji Verkiai. Fair value of net assets of AB Naujieji Verkiai was used when determining the value of AB Grigiškės shares. The difference between the fair value of shares issued by AB Grigiskės and their par value 000'LTL 2,708 is recorded as share premium.

The Company has one class of ordinary shares which carry no right to fixed income.

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of 5 per cent of the net profit are required until the legal reserve and share premium reach 10 per cent of the statutory capital. The appropriation is restricted to reduction of the accumulated deficit.

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

14. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organized into two operating divisions – paper and fiber. These divisions are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented below.

	Paper		Fiber		Unallocated		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000
Sales	41,828	40,303	44,904	31,746	5,121	5,331	91,853	77,380
Depreciation	1,946	1,958	647	397	1,477	1,228	4,070	3,583
Segment gross profit	13,612	13,880	10,530	6,977	1,092	723	25,234	21,580
Segment tangible and intangible fixed assets	11,857	15,317	6,720	5,301	24,869	21,243	43,446	41,861
Segment capital expenditure	1,272	1,844	2,679	4,868	3,919	3,054	7,870	9,766

Geographical segments

The Group's reportable geographic segments for the year ended 31 December are as follows:

2003	Paper		Fiber		Unallocated		Total	
	Local	Export	Local	Export	Local	Export	Local	Export
	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000
Sales	30,953	10,875	21,841	23,063	4,671	450	57,465	34,388
Cost of sales	(20,939)	(7,277)	(17,088)	(17,286)	(3,463)	(566)	(41,490)	(25,129)
Gross profit	10,014	3,598	4,753	5,777	1,208	(116)	15,975	9,259

2002	Paper		Fiber		Unallocated		Total	
	Local	Export	Local	Export	Local	Export	Local	Export
	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000	LTL'000
Sales	30,271	10,032	16,726	15,020	4,549	782	51,546	25,834
Cost of sales	(19,714)	(6,709)	(13,516)	(11,253)	(3,694)	(914)	(36,924)	(18,876)
Gross profit	10,557	3,323	3,210	3,767	855	(132)	14,622	6,958

All of the Group's assets are located in the Republic of Lithuania.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

15. NET OTHER OPERATING INCOME

For the year ended 31 December net other operating income consisted of the following:

	2003 LTL'000	2002 LTL'000
Gain from disposal of fixed assets	5,438	290
Rent income	287	182
Fines	284	(3)
Other income	444	915
Loss from fixed assets write-offs	(287)	(738)
Other expenses	(235)	(191)
Total	5,931	455

16. SELLING EXPENSES

For the year ended 31 December selling expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Transportation	4,874	3,129
Salaries and social insurance	1,362	1,209
Intermediation expenses	1,527	228
Other	989	880
Total	8,752	5,446

17. ADMINISTRATIVE EXPENSES

For the year ended 31 December administrative expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Salaries and social insurance	3,822	3,885
Repairs and maintenance	1,853	2,410
Other taxes	1,243	1,145
Depreciation and amortization	608	568
Professional services	354	1,208
Communication	200	276
Business trips	126	125
Insurance	66	21
Provisions for doubtful receivables	62	(878)
Release to income of negative goodwill	(108)	(108)
Other	2,298	2,139
Total	10,524	10,791

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

18. INCOME TAX

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

	2003	%	2002	%
	LTL'000		LTL'000	
Profit before income tax	<u>11,751</u>		<u>4,510</u>	
Tax at the statutory income taxes rate of 15%	1,763	15	676	15
Tax effect of items that are not deductible or taxable in determining taxable profit	(301)	(3)	235	5
Tax effect of share of results of associate	18	-	-	-
Deferred tax assets of Subsidiary acquired before valuation allowance	-	-	301	7
Decrease in deferred tax asset valuation allowance	(43)	-	(1,090)	(24)
Income tax expense	<u>1,437</u>	12	<u>122</u>	3
The components of income tax expense are as follows:				
Current income tax expense of Parent	1,359		-	
Current income tax expense of Subsidiary	87		221	
Deferred income tax benefit	(9)		(99)	
Income tax expense	<u>1,437</u>		<u>122</u>	

In accordance with IAS 12, the Group recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each balance sheet date the Group re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

AB GRIGIŠKĖS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

The management has recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. The components of deferred tax assets and liabilities are summarized as follows:

	2003 LTL'000	2002 LTL'000
Deferred tax assets:		
Provisions and write-offs	695	407
Accruals	135	100
Tax loss carry forward of Parent	-	366
Total deferred tax asset	<u>830</u>	<u>873</u>
Deferred tax liabilities:		
Depreciation	(787)	(796)
Total deferred tax liability	<u>(787)</u>	<u>(796)</u>
Total deferred tax asset, net	43	77
Less: valuation allowance	(830)	(873)
Total deferred tax liability	<u>(787)</u>	<u>(796)</u>

19. MERGER

At 28 December 2001 the Company acquired 49.92% of share capital of AB Naujieji Verkiai for LTL'000 4,051. The Company acquired the control over AB Naujieji Verkiai in January 2002 when some executives of the Company were elected to newly elected board of AB Naujieji Verkiai. In 2003 the Company and subsidiary AB Naujieji Verkiai were reorganized by affiliating the subsidiary AB Naujieji Verkiai, which activity as legal person was stopped from the 30 of September 2003, to the Company. The Company overtook whole assets, liabilities and rights of AB Naujieji Verkiai as of 30 September 2003.

The Company has issued 2,657,657 share emission in exchange of the net assets of AB Naujieji Verkiai. Fair value of net assets of AB Naujieji Verkiai was used when determining the value of AB Grigiškės shares. Former shareholders of AB Naujieji Verkiai who belonged to minority received the shares of the new emission of AB Grigiškės at a ratio of 9.15, i.e. they received 9.15 shares of the Company at a par value of LTL 1 for one share of AB Naujieji Verkiai at par value of LTL 10.

20. LITIGATION AND CLAIMS

Litigation and claims – At 31 December 2003 and 2002 the Group was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those, related to recovery of accounts receivable.

AB GRIGIŠKĒS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

21. RELATED PARTY TRANSACTIONS

During 2003 the Group entered into the following transactions and had the following outstanding balances at 31 December 2003 with related parties:

	Sale of goods and services LTL'000	Purchase of goods and services LTL'000	Amounts owed by related parties LTL'000	Amounts owed to related parties LTL'000
UAB Baltwood	341	339	258	-
UAB Ginvildos Investicija	1,815	-	-	425
UAB Didma	328	14	-	154
UAB Remada	-	8,000	7,400	-
Total	2,484	8,353	7,658	579

UAB Baltwood is an associate of the Group. UAB Ginvildos Investicija is shareholder of the Group. UAB Didma and UAB Remada are related to the Company's management.

All purchases from related parties were at market prices.
