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AB GRIGIŠKĒS

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Grigiškės:

1. We have audited the accompanying financial statements (page 6 to 38) of AB Grigiškės (hereafter – the Company) and of the Company and subsidiary (hereafter – the Group), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

2. Except as discussed in paragraph 3 below, we conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As of 31 December 2005 the Group's and the Company's tangible fixed assets, include fixed assets with a net book value of LTL 22,432,871 which are accounted for using the historical cost as adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss. This accounting policy might have been acceptable in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by the European Union (the "EU"), if the policy had been acceptable under Lithuanian Business Accounting Standards, which was applied by the Company in its last published financial statements for the year ended 31 December 2004, which it is not. In accordance with International Financial Reporting Standards and International Reporting Standards as adopted by the EU, property, plant and equipment must be measured either at fair value or at historical cost less subsequent depreciation and impairment losses. We have not been able to satisfy ourselves whether the assets referred to above, with a carrying amount of LTL 22,432,871 as of 31 December 2005, are fairly stated in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by EU.

4. In our opinion, except for the impact, if any, on the financial statements of the matter described in paragraph 3, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by the EU.

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

6. Without further qualifying our opinion we draw attention to the fact that the financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards as adopted by the EU for the first time. The last published financial statements were prepared in accordance with Lithuanian Business Accounting Standards for the year ended 31 December 2004. The date of transition to IFRS is therefore 1 January 2004. The disclosures required by IFRS 1 concerning the transition from Lithuanian Business Accounting Standards to IFRSs are given in Note 28 to the financial statements.

UAB Deloitte Lietuva
General Director Juozas Kabašinskas

Vilnius, Lithuania
24 March 2006

Audit.Tax.Consulting.Financial Advisory.


Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Member of
Deloitte Touche Tohmatsu

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005**

The year 2005 was a successful one for the Company. The Company increased its turnover and profit, as compared to the last year. Large-scale production modernisation and development projects have been, or are close to being, completed in order to increase production capacities, to improve the quality and to reduce the costs of production.

In 2005, the Company reached LTL 101.3 million turnover and earned LTL 9.42 million audited net profit, i.e., by 42% more compared to 2004. Such a result was to a certain extent determined by operating income obtained after recovery of LTL 2.5 million debts. Managerial solutions concerning the structure of the sales and purchase markets, improvement of product quality and reduction of administration costs contributed to the achievement of the mentioned results, too.

The range of paper products has been improved; extremely popular sheet towels GRITE and table-napkins GRITE have been launched for the market. In addition, the Company has increased its turnover on Scandinavian and Polish markets, established its representative office in Riga, prepared for penetration into Eastern markets.

As the existing production capacities have been used at full extent in respect of hardboards, the scope of hardboard sales did not increase this year. Instead, the Company focused on increasing the sales of processed hardboards and improving the quality of customer service. In addition, the Company has an opportunity to choose more profitable and nearer customers what consequently resulted in reduction of production costs.

Sales of corrugated board and its products have been rapidly growing. In 2005, sales of corrugated board were by 19% bigger compared to 2004. This was basically a result of implementation of new equipment that enabled increase in production capacities and wider range of higher quality products offered for the market.

In 2005, investments into the Company amounted to LTL 21.6 million. Quite a big portion thereof was used for implementation of a new papermaking line. Putting the line in operation is planned for the 2nd quarter 2006. Capacities of the new paper machine will replace three papermaking machines and will be used for the manufacturing of sanitary household paper of higher quality. In addition, the Company also acquired equipment for manufacturing of sheet-towels and table-napkins.

Few modernisation projects have been implemented in hardboard manufacturing as well. These projects were intended for minimisation of production costs and improvement of hardboard quality. Technological chip processing site has been completely modernised. Defibrators in hardboard manufacturing lines have been reconstructed; weight concentration controllers have been installed in addition to automated manufacturing system. Implementation of these projects resulted in reduced quantities of materials and raw materials used for manufacturing, energy input and industrial waste. The measures above as well as ensuring of alternative wood supply sources from Byelorussia enabled us to significantly mitigate the effect of a price rise for wood in the Lithuanian market on the costs price of our products.

Moreover, a new line was implemented for manufacturing of boxes from corrugated board. Some of the existing equipment was modernised as well. The mentioned investment resulted in added production capacities, ensured manufacturing at lower energy and wage input per unit, and enabled expansion of the existing market share with the help of lower prices.

In order to optimise industrial maintenance and operating costs, work organisation in transport workshop was also improved. Renovation of the office building improved work conditions for administration staff and ensured saving of heat energy.

On June 2005, the Company acquired 50% of the shares of wood processing company UAB Baltwood and now is controlling a 100% share holding. Aggregated turnover in the group of companies amounted to LTL 104.8 million in 2005. The group earned LTL 10.03 million audited net profit.

Comparison of financial indicators of the Company in 2003 – 2005 is presented in the table below:

Indicator	31/12/05	31/12/04	31/12/03
Profit per share (LTL)	0.24	0.17	0.25
Gross profit margin (%)	24.68	28.51	27.97
Net profit margin (%)	9.3	6.89	12.56
Return on assets (%)	9.5	8.18	13.25
Return on ending equity (%)	14.85	12.05	20.39
Debts / equity ratio	0.55	0.47	0.54
Debt ratio	0.36	0.32	0.35

Plans for the Year 2006

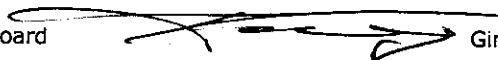
In 2006, AB Grigiškės is planning to increase its turnover by 22.5% and to sell its products and services for LTL 124.12 million. The Company expects to earn LTL 7.53 million net profit. Together with UAB Baltwood, forecasted turnover should reach LTL 139.8 million and profit should amount to LTL 7.7 million. Forecasted net profit is somewhat moderate due to amortisation flows, which are increasing as a result of investments into modernisation and development of production plant, a higher profit tax rate in 2006 and growing prices for gas. The indicator of profit margin is also influenced by penetration to new markets, because new markets can be entered with lower prices.

In order to ensure further growth of the Company and to mitigate the impact of growing raw-material prices and general level of wages, it is necessary to make investments into more efficient and less energy-intensive equipment and production lines. In 2006, expected investments into the Company should amount to LTL 26,8 million.

A new papermaking machine will start operating in the second half of the 2nd quarter. The Company also plans to acquire industrial papermaking line with thrice as big efficiency and to increase productivity of paper processing lines in order to have balanced capacities in papermaking and paper processing sections. In 2006, investments aimed at increasing capacities of hardboard processing will be used for acquisition of cutting-dimensioning saw and sander-calibration machine.

Increasing attention is paid to development of human resources, the Company has been awarded a contract on the development of human resources from EU funds. These funds will be used for training of young professionals. Motivation of all staff members of the Company is also improved by linking the system of evaluation interviews with the incentives system.

Chairman of the Board



Gintautas Pangonis

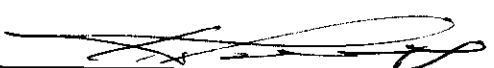
AB GRIGIŠKĖS

BALANCE SHEET AT 31 DECEMBER 2005

		The Group	The Company	
				(As restated (28 Note))
	Notes	2005 LTL	2005 LTL	2004 LTL
ASSETS				
Non-current assets:				
Property, plant and equipment	4	75,493,498	64,304,306	49,477,989
Intangible assets	6	7,386,064	5,041,927	280,541
Investments in associates	8	-	-	1,710,000
Investments in subsidiary	9	-	5,005,000	35,072
Loans granted	11	9,677	9,677	-
Other receivables	10	-	-	2,460,246
Total non current assets		82,889,239	74,360,910	53,963,848
Current assets:				
Cash and cash equivalents	12	667,557	141,254	1,459,822
Loans granted	11	129,635	129,635	553,846
Trade and other receivables	10	15,753,992	15,496,590	16,391,160
Inventories	13	11,176,188	8,747,828	8,625,033
Prepayments and deferred charges		331,171	303,353	354,873
Total current assets		28,058,543	24,818,660	27,384,734
TOTAL ASSETS		110,947,782	99,179,570	81,348,582
LIABILITIES AND EQUITY				
Capital and reserves:				
Share capital	14	39,956,657	39,956,657	39,956,657
Legal reserve	14	3,693,300	3,693,300	3,406,400
Retained earnings		20,761,041	18,982,309	11,850,317
Revaluation reserve for not used emission rights	5	798,307	798,307	-
Total equity		65,209,305	63,430,573	55,213,374
Government grants	5	524,937	524,937	-
Non-current liabilities				
Bank loans	15	3,992,038	3,992,038	3,019,014
Obligations under finance leases	16	7,206,604	6,567,458	4,715,445
Deferred tax liability	24	1,022,205	669,672	707,216
Other payables	18	-	-	2,460,246
Total non-current liabilities		12,220,847	11,229,168	10,901,921
Current liabilities:				
Bank loans	15	7,969,201	1,450,176	1,373,175
Obligations under finance leases	16	3,588,633	3,295,254	1,772,085
Provisions for used emission rights	5	3,522,006	3,522,006	-
Factoring		738,092	-	-
Trade and other payables	17	17,174,761	15,727,456	12,088,027
Total current liabilities		32,992,693	23,994,892	15,233,287
TOTAL LIABILITIES AND EQUITY		110,947,782	99,179,570	81,348,582

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

The financial statements were approved by the management on 24 March 2006 and signed on its behalf by:


Gintautas Pagonis
General Director

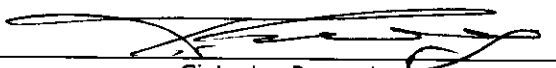

Nina Šilerienė
Chief Accountant

AB GRIGIŠKĖS**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

		<u>The Group</u>	<u>The Company</u>	
				(As restated (28 Note))
	Notes	2005 LTL	2005 LTL	2004 LTL
Sales	19	104,756,369	101,314,104	96,582,020
Cost of sales	19	(78,679,698)	(76,305,511)	(69,046,063)
Gross profit		26,076,671	25,008,593	27,535,957
Other operating income	20	2,727,451	2,766,306	1,800,478
Release of negative goodwill to income	7, 25	1,019,477	-	-
Selling and distribution expenses	22	(8,412,765)	(8,038,393)	(10,175,072)
Administrative expenses	23	(9,033,196)	(8,577,771)	(10,627,819)
Other operating expenses	21	(81,447)	(81,447)	(32,037)
Profit from operations		12,296,191	11,077,288	8,501,507
Share of loss in associates	8	(463,994)	-	-
Interest income		507,037	507,004	164,431
Interest expense		(709,264)	(566,535)	(637,938)
Net foreign exchange gain (loss)		46,785	43,070	(102,283)
Other finance income		-	-	122,670
Other finance expenses		(19,239)	(11,120)	(5,149)
Profit before income tax		11,657,516	11,049,707	8,043,238
Income tax (expense)	24	(1,628,815)	(1,630,815)	(1,388,482)
NET PROFIT		10,028,701	9,418,892	6,654,756
Basic and diluted earnings per share (in LTL)		0.25	0.24	0.17

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

The financial statements were approved by the management on 24 March 2006 and signed on its behalf by:


Gintautas Pagonis
General Director


Nina Šilerienė
Chief Accountant

AB GRIGIŠKĖS

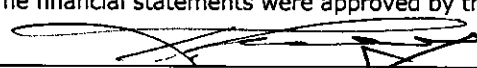
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

The Group	Share capital	Legal reserve	Revaluation reserve for not used emission rights	Other reserves	Retained earnings	Total
	LTL	LTL	LTL	LTL	LTL	LTL
At 31 December 2003	39,956,657	2,725,000	-	470,679	5,993,663	49,145,999
Effect of first-time adoption of IFRS (note 28)	-	-	-	-	(704,423)	(704,423)
At 31 December 2003 (as restated)	39,956,657	2,725,000	-	470,679	5,289,240	48,441,576
Other reserves used	-	-	-	(470,679)	470,679	-
Transfer to legal reserve	-	681,400	-	-	(681,400)	-
Net profit (as restated (note 28))	-	-	-	-	5,805,445	5,805,445
At 31 December 2004 (as restated)	39,956,657	3,406,400	-	-	10,883,964	54,247,021
Effect of changes in accounting policy (note 2)	-	-	-	-	2,135,276	2,135,276
At 31 December 2004 (as restated)	39,956,657	3,406,400	-	-	13,019,240	56,382,297
Transfer to legal reserve	-	286,900	-	-	(286,900)	-
Dividends paid	-	-	-	-	(2,000,000)	(2,000,000)
Not used emission rights revaluation impact (note 5)	-	-	798,307	-	-	798,307
Net profit	-	-	-	-	10,028,701	10,028,701
At 31 December 2005	39,956,657	3,693,300	798,307	-	20,761,041	65,209,305

The Company	Share capital	Legal reserve	Revaluation reserve for not used emission rights	Other reserves	Retained earnings	Total
	LTL	LTL	LTL	LTL	LTL	LTL
At 31 December 2003	39,956,657	2,725,000	-	470,679	5,993,663	49,145,999
Effect of first-time adoption of IFRS (note 28)	-	-	-	-	(587,381)	(587,381)
At 31 December 2003 (as restated)	39,956,657	2,725,000	-	470,679	5,406,282	48,558,618
Other reserves used	-	-	-	(470,679)	470,679	-
Transfer to legal reserve	-	681,400	-	-	(681,400)	-
Net profit (as restated (note 28))	-	-	-	-	6,654,756	6,654,756
At 31 December 2004 (as restated)	39,956,657	3,406,400	-	-	11,850,317	55,213,374
Transfer to legal reserve	-	286,900	-	-	(286,900)	-
Dividends paid	-	-	-	-	(2,000,000)	(2,000,000)
Not used emission rights revaluation impact (note 5)	-	-	798,307	-	-	798,307
Net profit	-	-	-	-	9,418,892	9,418,892
At 31 December 2005	39,956,657	3,692,800	798,307	-	18,982,309	63,430,573

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

The financial statements were approved by the management on 24 March 2006 and signed on its behalf by:


Gintautas Pangonis
General Director


Nina Silerienė
Chief Accountant

AB GRIGIŠKĖS

CASH FLOWS STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	The Group	The Company	
			(As restated (28 Note))
	2005 LTL	2005 LTL	2004 LTL
OPERATING ACTIVITIES			
Profit before income tax	11,657,516	11,049,707	8,043,238
Adjustments for:			
Depreciation and amortization	6,904,103	6,283,841	5,103,449
Release of negative goodwill to income	(1,019,477)	-	-
Share of loss of associates	463,994	-	-
Interest income	(507,037)	(507,004)	(164,431)
Interest expense	709,264	566,535	637,938
Net foreign exchange (gain) loss	(46,785)	(43,070)	102,283
(Profit) on disposal of fixed assets	(92,598)	(91,985)	(1,277,795)
Provisions for slow moving inventory, write off to net realisable value and low value inventory	78,264	75,218	(103,853)
Fixed assets impairment losses (reversal)	(31,464)	(31,464)	112,639
Goodwill impairment losses	453	-	-
Investments in subsidiary impairment losses	35,072	35,072	64,928
Provision for doubtful accounts receivable (reversal), write off of bad accounts receivables	(959,214)	(959,214)	601,416
	17,192,091	16,377,636	13,119,812
Changes in operating assets and liabilities:			
Decrease/(increase) in prepayments and deferred charges	55,726	51,520	(3,236)
Decrease in trade and other receivables	828,011	713,784	2,056,697
(Increase) in inventories	(1,488,940)	(198,013)	(376,545)
Increase/(decrease) in trade and other payables	5,702,895	3,682,499	(2,608,997)
Cash generated by/(used in) operations	5,097,692	4,101,127	(932,081)
Interest paid	(709,264)	(566,535)	(637,938)
Income taxes paid	(1,668,359)	(1,668,359)	(1,457,810)
Net cash from operating activities	19,912,160	18,392,532	10,091,983
INVESTING ACTIVITIES			
Purchase of fixed tangible and intangible assets, net	(15,249,943)	(14,199,621)	(5,249,033)
Interest received	507,037	507,004	164,431
Acquisition of subsidiary	(1,890,129)	(1,905,000)	(100,000)
Acquisition of investment in an associate	-	-	(2,500)
Loans granted	-	-	(553,846)
Repayment of loans granted	164,534	164,534	-
Proceeds from long-term receivables	2,460,246	2,460,246	351,464
Net cash (used in) investing activities	(14,008,255)	(12,972,837)	(5,389,484)
FINANCING ACTIVITIES			
Dividends paid	(2,000,000)	(2,000,000)	-
Repayments of borrowings	(2,771,534)	(2,216,925)	2,423,439
Proceeds from borrowings	4,177,844	3,266,950	(4,443,774)
Repayment of long-term payables	(2,460,246)	(2,460,246)	(351,464)
Repayments of finance lease liabilities	(3,642,234)	(3,328,042)	(2,010,048)
Net cash (used in) financing activities	(6,696,170)	(6,738,263)	(4,381,847)
Net (decrease)/increase in cash	(792,265)	(1,318,568)	320,652
CASH, BEGINNING OF THE YEAR	1,459,822	1,459,822	1,139,170
CASH, END OF THE YEAR	667,557	141,254	1,459,822

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

The financial statements were approved by the management on 24 March 2006 and signed on its behalf by:


Gintautas Pangonis
General Director


Nina Šlierienė
Chief Accountant

AB GRIGIŠKĖS

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

1. GENERAL INFORMATION

AB Grigiškės (the Company) was established in 1823. 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.

As of 31 December 2005 the Group consisted of the Company and its wholly owned (100%) subsidiary UAB Baltwood. The Company's and its subsidiaries the addresses of their registered office and the principal activities are as follow:

Name	Country	Main address	Principal activity
AB Grigiškės	Lithuania	Vilniaus str. 10, 27101 Vilnius – Grigiškės	Fiberboard, corrugated cardboard and paper articles produce
UAB Baltwood	Lithuania	Vilniaus str. 10, 27101 Vilnius – Grigiškės	Wood processing
UAB Grigiškių transporto centras	Lithuania	Vilniaus str. 10, 27101 Vilnius – Grigiškės	Resale of used vehicles

The financial statements of UAB Grigiškių transporto centras were not consolidated due to the fact that this Company is insignificant to the parent company.

The average number of employees in the Company in 2005 was 835 (2004: 902). As of 31 December 2005 the Group employed 933 employees.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's and the Company's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- goodwill (IFRS 3);
- excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3).

The impact of these changes in accounting policies is discussed in detail below.

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

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

The management of the Group anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group and the Company.

In addition, please see note 28 for impact of first-time adoption of IFRS.

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

IFRS 3, Business combinationsGoodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisitions during the 2004 accounting period. Therefore, the first transaction to which the new Standard has been applied is the acquisition of 50% shares in UAB Baltwood on 20 June 2005.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 5 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005, to goodwill acquired in business combinations for which the agreement date was before 31 March 2004. Therefore, from 1 January 2005, the Group has discontinued amortising such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At 1 January 2005, the carrying amount of amortisation accumulated before that date of 24 LTL has been eliminated, with a corresponding decrease in goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortisation has been charged in 2005. The charge in 2004 was 24 Lt. An impairment loss of 453 Lt has been recognised in the current period in accordance with IAS 36.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superseded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from 1 January 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill at 1 January 2005 has been derecognised at the effective date of the change in accounting policy. Therefore, an adjustment is made to opening equity, increasing retained earnings and decreasing negative goodwill at 1 January 2005 by 2,135,276 LTL.

Under the previous accounting policy, 66,902 LTL of negative goodwill would have been released to income during 2005, leaving a balance of negative goodwill of 2,068,374 LTL at 31 December 2005. Therefore, the impact of the change in accounting policy in 2005 is a reduction in other operating income of 66,902 LTL and an increase in net assets at 31 December 2005 of 2,068,374 LTL.

3. SIGNIFICANT ACCOUNTING POLICIES

For the first time, the Company's financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (IFRS) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. Also, for the first time, the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact the financial statements had it been approved by the EU at the balance sheet date. Therefore, as a matter of reference, the term "IFRS" is hereafter used and referring to both IFRS and IFRS as adopted by the EU. The disclosure of transition from Lithuanian Business Accounting Standards to IFRS, as required by IFRS 1 is disclosed in Note 28 to the financial statements.

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The financial statements have been prepared on the historical cost basis, as modified by the indexation of certain fixed assets and revaluation of emission rights, provisions for used emission rights and related Government grants to fair value. The principal accounting policies are set out below.

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

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

Principles of consolidation

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

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

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

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

Business combinations

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

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

Interest in associated company in Group consolidated financial statements

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investments in subsidiaries and associates in Parent separate financial statements

A subsidiary is a company over which the parent has control. An associate is an entity over which the parent has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in subsidiaries and associated company are stated at cost less impairment losses

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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recognized, where the investment's carrying amount exceeds its estimated recoverable amount in the parent's balance sheet. Dividends received are charged to the parent's income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided net of value-added tax, rebates and discounts. Revenues from sale of goods are recognised when goods are delivered and title has passed. Revenue from rendering of services is recognised on performance of the services.

Interest income is recognized on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of income.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign Currencies

Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

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

	2005		2004
1 USD	= 2.9102 LTL	1 USD	= 2.5345 LTL
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
1 GBP	= 5.0141 LTL	1 GBP	= 4.8662 LTL
10 PLN	= 8.9608 LTL	10 PLN	= 8.4744 LTL

Borrowing costs

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

Emission rights

The EU Emission Allowance Trading Scheme was established by Directive 2003/87/EC and commenced on 1 January 2005. The first phase runs for the three-year period from 2005 to 2007; the second will run for five years from 2008-2012 to coincide with the first Kyoto Commitment Period. The scheme works on a 'Cap and Trade' basis. EU Member States' governments are required to set an emission cap for each phase for all 'installations' covered by the Scheme. This cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State. The NAP describes the amount of yearly emissions (measured in tonnes of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

Member States are required to allocate allowances to installations by 28 February each year according to the NAP (a certain number of allowances are kept in reserve for new installations).

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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preceding calendar year. Thus, installations will surrender allowances for the first time by 30 April 2006 equal to their emissions during the 2005 calendar year.

Intangible asset

EU emission rights represent an intangible asset received as a non-monetary government grant free of charge and is recognised initially at fair value when issued or allocated.

After initial recognition the intangible assets is re-measured at fair value by reference to an active market. Re-measurements related to not used emission rights are recognised directly in a separate component of equity. The revaluation results of obligations related to used emission rights (upon settlement or sale) are recognised in the income statement.

Government grant

The Company has received EU emission allowances for free, which represent a non-monetary government grant, which initially is recognised in the balance sheet at fair value of the related asset at the date of issue or allocation. Subsequently the government grant is recognised as income on a systematic basis over the compliance period for which the allowances were issued.

Provision for emission rights

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This is present market price of the number of allowances required to cover emissions made up to the balance sheet date. The obligation can only be settled by surrendering allowances to the appropriate authority. The revaluation of the emission liability to fair value is recognised in the income statement.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

Tangible fixed assets

Tangible fixed assets are stated at historical cost as adjusted for the indexation of certain tangible fixed assets, less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, on the following basis:

Buildings and constructions	4 – 91 years
Machinery and equipment	2 – 50 years
Vehicles	3 – 20 years
Other equipment and other fixed assets	2 – 20 years

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Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The Company capitalizes the assets according to the capitalization values set for certain groups of assets:

Buildings and constructions	1,000 LTL
Machinery and equipment	3,000 LTL
Vehicles	1,000 LTL
Other equipment and other fixed assets, except computer equipment	1,000 LTL
Computer equipment	300 LTL

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of income.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Intangible Assets (except Emission Rights)

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent accumulated amortisation. Amortisation is calculated on the straight-line method to write off the cost of each asset over the estimated useful life as follows:

Land lease rights	90 years
Licenses, patents and etc.	2 – 3 years
Software	1 – 5 years
Other intangible assets	2 – 4 years

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.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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. An impairment loss is recognised 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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.

Inventories

Inventories are stated at the lower of cost or market value. The First-In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labor cost, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the parent's and the Group's balance sheet when the Parent and/or the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of income when there is objective evidence that the asset is impaired as a result of

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in the statement of income.

Trade payables

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

Financial risk management

The principal financial risk management policies of the Group and the Company are set out below:

Credit risk

The Group's credit risk is primarily attributable to its trade receivables and loans granted. The amounts presented in the balance sheet are net of allowances for doubtful receivables and loans, estimated by the Group's management based on objective evidence of events occurred after the initial recognition of the amounts.

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 number of counter parties and customers.

Interest rate risk

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

Foreign currencies exchange risk

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

Segment reporting

A business segment is a distinguishable component of an entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

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

Earnings per share

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2005 and 2004 was 39,956,657 respectively. The Company had no dilutive options outstanding during 2005 and 2004 or at 31 December 2005 and 2004.

Related parties

Related parties are defined as shareholders, employees, members of the 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, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 basis of presentation.

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

4. PROPERTY, PLANT AND EQUIPMENT

At 31 December property, plant and equipment consisted of the following:

The Group	Buildings and constructions LTL	Machinery and Equipment LTL	Vehicles LTL	Other assets LTL	Construction in progress and prepayments LTL	Total LTL
MODIFIED COST						
31 December 2004	30,164,560	56,310,531	4,202,681	2,201,550	4,520,195	97,399,517
Acquired on acquisition of a subsidiary	1,906,137	9,407,812	573,574	72,380	4,733	11,964,636
Additions	31,184	1,707,250	1,348,621	283,621	18,287,231	21,657,907
Disposals	(16,544)	(1,157,256)	(356,815)	(204,268)	(1,448,670)	(3,183,553)
Transfers	94,588	9,995,007	19,724	268,716	(10,378,035)	-
31 December 2005	<u>32,179,925</u>	<u>76,263,344</u>	<u>5,787,785</u>	<u>2,621,999</u>	<u>10,985,454</u>	<u>127,838,507</u>
Comprising:						
At cost	4,042,112	50,967,919	5,163,500	2,269,574	10,985,454	73,428,555
At modified cost	<u>28,137,813</u>	<u>25,295,425</u>	<u>624,285</u>	<u>352,425</u>	-	<u>54,409,952</u>
31 December 2005	<u>32,179,925</u>	<u>76,263,344</u>	<u>5,787,785</u>	<u>2,621,999</u>	<u>10,985,454</u>	<u>127,838,507</u>
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
31 December 2004	12,496,118	30,486,408	1,984,869	1,505,463	1,448,670	47,921,528
Acquired on acquisition of a subsidiary	81,040	429,242	192,251	27,887	-	730,420
Charge for the year	740,043	5,142,261	593,985	297,628	-	6,773,917
Impairment loss/ (reversal)	-	(7,955)	-	(23,508)	-	(31,463)
Disposals	(16,535)	(1,113,887)	(275,915)	(194,386)	(1,448,670)	(3,049,393)
Transfers	-	(14,789)	14,789	-	-	-
31 December 2005	<u>13,300,666</u>	<u>34,921,280</u>	<u>2,509,979</u>	<u>1,613,084</u>	<u>-</u>	<u>52,345,009</u>
CARRYING AMOUNT						
31 December 2004	<u>17,668,442</u>	<u>25,824,123</u>	<u>2,217,812</u>	<u>696,087</u>	<u>3,071,525</u>	<u>49,477,989</u>
31 December 2005	<u>18,879,259</u>	<u>41,342,064</u>	<u>3,277,806</u>	<u>1,008,915</u>	<u>10,985,454</u>	<u>75,493,498</u>

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

As of 31 December 2005 the part of Group's tangible fixed assets with carrying amount of LTL 17,834,511 (31 December 2004: LTL 10,422,044) is pledged as security for loan granted by banks (Note 15).

As of 31 December 2005 the Group's tangible fixed assets having a carrying amount of LTL 13,386,662 (31 December 2004: LTL 5,524,296) were acquired under finance lease.

As of 31 December 2005 the provisions for impairment of the Group's tangible fixed assets amounts to LTL 920,608 (31 December 2004: LTL 2,400,741).

As of 31 December 2005 the acquisition cost of the fully depreciated tangible fixed assets (constructions, equipment and other assets) still in use of the Group was LTL 15,348,326 (31 December 2004: LTL 15,086,834).

As of 31 December 2005 the Group's tangible fixed assets, include fixed assets with a net book value of LTL 22,432,871 (31 December 2004: LTL 21,692,577) which are accounted for using historical cost as adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss.

(continued)

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

(continued)

The Company	Buildings and constru- ctions LTL	Machinery and Equipment LTL	Vehicles LTL	Other assets LTL	Construction in progress and prepayments LTL	Total LTL
MODIFIED COST						
31 December 2004	30,164,560	56,310,531	4,202,681	2,201,550	4,520,195	97,399,517
Additions	12,467	1,722,556	828,374	249,807	18,286,248	21,099,452
Disposals	(16,544)	(1,157,256)	(356,815)	(204,268)	(1,448,670)	(3,183,553)
Transfers	94,588	9,995,007	19,724	268,716	(10,378,035)	-
31 December 2005	30,255,071	66,870,838	4,693,964	2,515,805	10,979,738	115,315,416
Comprising:						
At cost	2,117,255	41,575,413	4,069,679	2,163,380	10,979,738	60,905,465
At modified cost	28,137,816	25,295,425	624,285	352,425	-	54,409,951
31 December 2005	30,255,071	66,870,838	4,693,964	2,515,805	10,979,738	115,315,416
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
31 December 2004	12,496,118	30,486,408	1,984,869	1,505,463	1,448,670	47,921,528
Charge for the year	713,965	4,672,444	504,911	279,118	-	6,170,438
Impairment loss/ (reversal)	-	(7,955)	-	(23,508)	-	(31,463)
Disposals	(16,535)	(1,113,887)	(275,915)	(194,386)	(1,448,670)	(3,049,393)
Transfers	-	(14,789)	14,789	-	-	-
31 December 2005	13,193,548	34,022,221	2,228,654	1,566,687	-	51,011,110
CARRYING AMOUNT						
31 December 2004	17,668,442	25,824,123	2,217,812	696,087	3,071,525	49,477,989
31 December 2005	17,061,523	32,848,617	2,465,310	949,118	10,979,738	64,304,306

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

As of 31 December 2005 the part of Company's tangible fixed assets with carrying amount of LTL 8,075,710 (31 December 2004: LTL 10,422,044) is pledged as security for loan granted by bank (Note 15).

As of 31 December 2005 the tangible fixed assets having a carrying amount of LTL 12,174,541 (31 December 2004: LTL 5,524,296) were acquired under finance lease.

As of 31 December 2005 the provision for impairment of assets amounts to LTL'000 920,608 (31 December 2004: LTL 2,400,741).

As of 31 December 2005 the acquisition cost of the fully depreciated tangible fixed assets (constructions, equipment and other assets) still in use of the Company was LTL 15,348,326 (31 December 2004: LTL 15,086,834).

As of 31 December 2005 the Company's tangible fixed assets, include fixed assets with a net book value of LTL 22,432,871 (31 December 2004: LTL 21,692,577) which are accounted for using historical cost as adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss.

(concluded)

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

5. EMISSION RIGHTS

Emission rights movement for the year ended 31 December 2005 consisted of the following:

The Group/The Company	Emission rights (note 6) LTL	Received Government grant LTL	Provision for used emission rights LTL	Revaluation reserve LTL	Income statement LTL
Government grant received at fair value	1,922,131	1,922,131	-	-	-
Revaluation	2,923,119	-	-	798,307	2,124,812
Provision for used emission rights	-	(1,397,194)	3,522,006	-	(2,124,812)
Balance as of 31 December 2005	4,845,250	524,937	3,522,006	798,307	-

6. INTANGIBLE ASSETS

At 31 December intangible fixed assets consisted of the following:

The Group	Land lease rights LTL	Emission rights (note 5) LTL	Licenses, patents and etc. LTL	Software LTL	Other assets and prepayments LTL	Total LTL
COST OR VALUATION						
31 December 2004	-	-	53,583	470,957	35,102	559,642
Acquired on acquisition of a subsidiary	2,400,000	-	-	14,252	5,288	2,419,540
Additions	-	1,922,131	2,254	27,706	-	1,952,091
Disposals	-	-	-	(7,098)	(472)	(7,570)
Transfers	-	-	7,134	-	(7,134)	-
Revaluation	-	2,923,119	-	-	-	2,923,119
31 December 2005	2,400,000	4,845,250	62,971	505,817	32,784	7,846,822
Comprising:						
At cost	2,400,000	-	62,971	505,817	32,784	3,001,572
At valuation	-	4,845,250	-	-	-	4,845,250
31 December 2005	2,400,000	4,845,250	62,971	505,817	32,784	7,846,822
ACCUMULATED AMORTISATION						
31 December 2004	-	-	24,475	231,297	23,329	279,101
Acquired on acquisition of a subsidiary	48,889	-	-	7,215	2,937	59,041
Charge for the period	13,333	-	13,581	99,967	3,305	130,186
Impairment loss/ (reversal)	-	-	-	-	-	-
Disposals	-	-	-	(7,098)	(472)	(7,570)
Transfers	-	-	-	-	-	-
31 December 2005	62,222	-	38,056	331,381	29,099	460,758
CARRYING AMOUNT						
31 December 2004	-	-	29,108	239,660	11,773	280,541
31 December 2005	2,337,778	4,845,250	24,915	174,436	3,685	7,386,064

As of 31 December 2005 the acquisition cost of the fully depreciated intangible fixed assets still in use of the Group was LTL 104,588 (31 December 2004: LTL 67,740).

As of 31 December 2005 the Group's land lease rights with carrying amount of LTL 2,337,778 are pledged as security for loan granted by bank (Note 15).

(continued)

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

(continued)

The Company	Emission rights (note 5) LTL	Licenses and patents LTL	Software LTL	Other assets LTL	Prepayments LTL	Total LTL
COST OR VALUATION						
31 December 2004	-	53,583	470,957	27,968	7,134	559,642
Additions	1,922,131	2,254	27,285	-	-	1,951,670
Disposals	-	-	(7,098)	(472)	-	(7,570)
Revaluation	2,923,119	-	-	-	-	2,923,119
Transfers	-	7,134	-	-	(7,134)	-
31 December 2005	<u>4,845,250</u>	<u>62,971</u>	<u>491,144</u>	<u>27,496</u>	<u>-</u>	<u>5,426,861</u>
Comprising:						
At cost	-	62,971	491,144	27,496	-	581,611
At valuation	<u>4,845,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,845,250</u>
31 December 2005	<u>4,845,250</u>	<u>62,971</u>	<u>491,144</u>	<u>27,496</u>	<u>-</u>	<u>5,426,861</u>
ACCUMULATED AMORTISATION						
31 December 2004	-	24,475	231,297	23,329	-	279,101
Charge for the period	-	13,581	97,398	2,424	-	113,403
Impairment loss/ (reversal)	-	-	-	-	-	-
Disposals	-	-	(7,098)	(472)	-	(7,570)
Transfers	-	-	-	-	-	-
31 December 2005	<u>-</u>	<u>38,056</u>	<u>321,597</u>	<u>25,281</u>	<u>-</u>	<u>384,934</u>
CARRYING AMOUNT						
31 December 2004	-	<u>29,108</u>	<u>239,660</u>	<u>4,639</u>	<u>7,134</u>	<u>280,541</u>
31 December 2005	<u>4,845,250</u>	<u>24,915</u>	<u>169,547</u>	<u>2,215</u>	<u>-</u>	<u>5,041,927</u>

Amortization of intangible fixed assets is included within operating expenses.

As of 31 December 2005 the acquisition cost of the fully depreciated intangible fixed assets still in use of the Company was LTL 104,588 (31 December 2004: LTL 67,740).

(concluded)

AB GRIGIŠKĖS

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

7. GOODWILL AND NEGATIVE GOODWILL

At 31 December goodwill and negative goodwill consisted of the following:

The Group	Goodwill LTL	Negative goodwill LTL	Total LTL
Cost			
31 December 2004	477	(2,230,053)	(2,229,576)
Elimination of amortisation accumulated prior to the adoption of IFRS (note 2)	(24)	94,777	94,753
Impairment loss	(453)	-	(453)
Derecognition of previously recognised negative goodwill (note 2)	-	2,135,276	2,135,276
31 December 2005	-	-	-
Amortisation			
31 December 2004	(24)	94,777	94,753
Elimination of amortisation accumulated prior to the adoption of IFRS (note 2)	24	(94,777)	(94,753)
Change for the period	-	-	-
31 December 2005	-	-	-
Carrying amount			
31 December 2004	453	(2,135,276)	(2,134,823)
31 December 2005	-	-	-

8. INVESTMENTS IN ASSOCIATES

	The Group	
	30.06.2005 LTL	2004 LTL
Balance at 31 December 2004	743,648	1,590,458
Acquisition of associates	-	2,500
Goodwill amortization (note 7)	-	(24)
Negative goodwill amortization (note 7)	-	66,902
Goodwill impairment loss (note 7)	(453)	-
Derecognition of previously recognised negative goodwill (note 7)	2,135,276	-
Share of loss of associates	(463,994)	(916,188)
Total	2,414,477	743,648

As of 30 June 2005 and 31 December 2004 UAB Baltwood proportion of ownership interest and voting power held was 50.00%.

Summarised financial information in respect of the Group's associates is set out below:

	30.06.2005 LTL
Total assets	15,469,783
Total liabilities	(10,640,830)
Net assets	4,828,953
Group's share of associates' net assets	2,414,477

AB GRIGIŠKĖS

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

01.01.2005-
30.06.2005
LTL

Sales	5,305,376
Net loss	(927,987)

Group's share of associates' loss for the period **463,994**

On 20 June 2005 the Group acquired 50% UAB Baltwood shares (note 25) and as of that date the Group obtained full control (100%) over the subsidiary.

The movement in investment balance during the year ended 31 December 2005 was as follows:

	The Company	
	2005 LTL	2004 LTL
Balance at 31 December	1,710,000	1,707,500
Acquisition of associates	-	2,500
Transfer to investment in subsidiary (note 9)	(1,710,000)	-
Balance at 31 December	-	1,710,000

9. INVESTMENTS IN SUBSIDIARY

At 31 December investments in subsidiary consisted of the following:

Subsidiary	31 December 2005		31 December 2004	
	LTL	%of owner- ship	LTL	%of owner- ship
UAB Baltwood	5,005,000	100%	-	-
UAB Grigiškių transporto centras	-	100%	35,072	100%
Total	5,005,000		35,072	

The movement in investment balance during the year ended 31 December 2005 was as follows:

	2005 LTL	2004 LTL
Balance at 31 December	35,072	-
Acquisition of subsidiary	1,395,000	100,000
Increase of share capital of subsidiary:		
-in cash	510,000	-
-loan capitalised	250,000	-
-trade accounts receivable capitalised	1,140,000	-
Transfers from investment in associate (note 8)	1,710,000	-
Impairment loss	(35,072)	(64,928)
Balance at 31 December	5,005,000	35,072

Further details about the subsidiaries are given in the Notes 1 and 25.

AB GRIGIŠKĖS

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

10. TRADE AND OTHER RECEIVABLES

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

	Group	Company	
	2005	2005	2004
	LTL	LTL	LTL
Trade receivables	15,276,611	15,396,867	14,351,281
Other receivables	1,671,064	1,266,408	6,664,985
	16,947,675	16,663,275	21,016,266
Less: amounts receivable after one year	-	-	(2,460,246)
Total amounts receivable within one year	16,947,675	16,663,275	18,556,020
Less: Provisions for doubtful amounts receivable	(1,193,683)	(1,166,685)	(2,164,860)
Total amounts receivable within one year	15,753,992	15,496,590	16,391,160

The carrying amount of the Group and Company trade and other receivables approximates their fair value.

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

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
At 1 January	2,164,860	2,164,860	2,128,431
Increase of provisions	213,510	186,512	51,339
Reversal of provisions	(1,184,687)	(1,184,687)	(14,910)
At 31 December	1,193,683	1,166,685	2,164,860

At 31 December 2004 other receivables include an amount of LTL 6,497,072 for land and buildings resold. In year 2003, the Company has resold the purchased land at the same conditions as determined in land purchase agreement. The payment schedule is from year 2005 to 2012. The annual interest rate started to calculate from 1 January 2004 is 2% (see also Note 18). In the year 2005 the amount receivable were subsequently paid.

11. LOANS GRANTED

As of 31 December loans granted consisted of the following:

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Loan receivable from UAB Baltwood, denominated in LTL, maturity date - 31 December 2005, interest free	-	-	250,000
Loan receivable from UAB Grigiškių transporto centras, denominated in LTL, maturity date - 31 December 2005, interest free	119,958	119,958	303,846
Loan receivable from employee denominated in LTL, maturity date - 31 December 2007, interest free	19,354	19,354	-
	139,312	139,312	553,846
Less: loans granted after one year	(9,677)	(9,677)	-
Total loans granted within one year	129,635	129,635	553,846

AB GRIGIŠKĖS

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

12. CASH AND CASH EQUIVALENTS

At 31 December cash and cash equivalents consisted of the following:

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Cash at bank	625,150	102,885	1,446,987
Cash on hand	42,407	38,369	12,835
Total	667,557	141,254	1,459,822

13. INVENTORIES

At 31 December inventories consisted of the following:

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Materials	4,234,879	4,008,798	3,682,602
Finished goods	2,999,106	2,721,357	3,323,528
Work in progress	3,714,284	1,846,162	1,515,820
Goods in transit	227,919	171,511	103,083
Total	11,176,188	8,747,828	8,625,033

As of 31 December 2005 the Group's inventory with carrying amount of LTL 833,634 are pledged as security for loan granted by bank (Note 15).

14. SHARE CAPITAL AND RESERVES

As of 31 December 2005 and 2004 the issued share capital consisted of LTL 39,956,657 ordinary shares at a par value of LTL 1 each. As of 31 December 2005 and 2004 all shares were fully paid.

As of 31 December 2005 shareholders of the Company were as follows:

	Number of shares	Proportion of ownership, %
Lithuanian legal entities	22,831,421	57.14
Lithuanian individuals	11,281,935	28.24
Foreign legal entities	5,767,828	14.44
Foreign individuals	75,473	0.18
Total	39,956,657	100.00

Main shareholders:

	Number of shares	Proportion of ownership, %
UAB Ginvildos Investicija	18,895,104	47.29
Rosemount Holdings LLC	3,554,319	8.90
Mišėikis Dailius Juozapas	2,041,245	5.11
Total	24,490,668	61.30

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 reach 10 per cent of the statutory capital. The appropriation is restricted to reduction of the accumulated deficit.

AB GRIGIŠKĖS

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

15. BORROWINGS

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
The borrowings are repayable as follows:			
Within one year	7,969,201	1,450,176	1,373,175
In the second year	2,175,264	2,175,264	2,656,470
In the third to fifth years inclusive	1,816,774	1,816,774	362,544
	11,961,239	5,442,214	4,392,189
Less: amount due for settlement within one year*	7,969,201	1,450,176	1,373,175
Amount due for settlement after one year	3,992,038	3,992,038	3,019,014
Analysis of borrowings by currency:			
LTL	2,749,496	-	2,216,925
EUR	9,211,743	5,442,214	2,175,264
USD	-	-	-
Total	11,961,239	5,442,214	4,392,189

THE GROUP

* - according to the loan agreement with AB SEB Vilniaus Bankas, UAB Baltwood (the subsidiary) is required to comply with certain covenants. The subsidiary is in default with certain covenants noted in the loan agreement with AB SEB Vilniaus bankas for the year ended 31 December 2005. Due to the default of the covenants the loan from AB SEB Vilniaus bankas is accounted for as current liabilities as loan on demand. In case AB SEB Vilniaus bankas will not claim the loan to be repaid fully within 12 months, the future loan repayments after the year 2005 would be as follows:

	LTL
2006	554,609
2007	554,609
2008	554,609
2009	554,609
2010	1,551,093
Due after five years	-
Total	3,769,529

Compliance with loan covenants based on the UAB Baltwood financial statements for the year ended 31 December 2005 in accordance with International Financial Reporting Standards, are illustrated below:

	Required	Actual before reclassification of long term loan	Actual after reclassification of long term loan
Current liquidity	>1.00	0.65	0.45
Debt to equity	<2.33	1.68	1.68
EBITDA to outstanding loans and interest	>1.40	0.04	0.04

The borrowings have been secured by pledging certain inventory, tangible and intangible fixed assets (note 4, 6, 13).

According to management, the fair value of the Group's borrowings at 31 December 2005 approximated LTL 11,711,856.

(continued)

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

(continued)

As of 31 December 2005 the interest rates of the Group applied for bank loans were as follow:

	2005 LTL
2,932,432 LTL loan from AB „SEB Vilniaus bankas“	Annual interest rate – 6 months EURIBOR + 1.35%.
2,499,496 LTL loan from AB „SEB Vilniaus bankas“	Annual interest rate – 6 months VILIBOR + 1.35%.
837,097 LTL loan from AB „SEB Vilniaus bankas“	Annual interest rate – 6 months EURIBOR + 1.6%.
250,000 LTL loan from „Dansk Traemballage“ A/S	Interest free
5,442,214 LTL loan from AB „SEB Vilniaus bankas“	Annual interest rate – 12 months LIBOR + 0.9%.

THE COMPANY

As of 31 December 2005 borrowings of LTL 5,442,214 were arranged at floating interest rates, 12 months LIBOR+0.9% respectively of approximately 3.18%.

As of 31 December 2004 borrowings of LTL 248,175 and LTL 2,175,264 were arranged at floating interest rates 1 night VILIBOR+1.8% and 12 months LIBOR+0.9% respectively of approximately 3.68% and 3.27%. Borrowings of LTL 1,968,750 was arranged at fixed interest rates of 5.00%.

The borrowings have been secured by pledging certain tangible fixed assets (note 4).

According to management, the fair value of the Company's borrowings at 31 December 2005 approximated LTL 5,255,526 (31 December 2004: LTL 4,310,210).

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.

(concluded)

AB GRIGIŠKĖS

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

16. FINANCE LEASE LIABILITIES

The Group	Minimum lease payments 2005 LTL	Present value of minimum lease payments 2005 LTL
Amounts payable under finance leases:		
Within one year	3,924,237	3,588,633
In the second to fifth years inclusive	7,599,000	7,206,604
Sub-total	11,523,237	10,795,237
Less: future finance charges	(728,000)	-
Present value of lease liabilities	10,795,237	10,795,237

The Company	Minimum lease payments		Present value of minimum lease payments	
	2005 LTL	2004 LTL	2005 LTL	2004 LTL
Amounts payable under finance leases:				
Within one year	3,605,161	2,076,788	3,295,254	1,772,085
In the second to fifth years inclusive	6,925,164	5,055,611	6,567,458	4,715,445
Sub-total	10,530,325	7,132,399	9,862,712	6,487,530
Less: future finance charges	(667,613)	(644,869)	-	-
Present value of lease liabilities	9,862,712	6,487,530	9,862,712	6,487,530

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

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

AB GRIGIŠKĖS

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

17. TRADE AND OTHER PAYABLES

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

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Trade payables	14,293,446	13,096,698	8,637,255
Taxes, salaries and social insurance payable	1,931,207	1,860,290	1,509,723
Accrued charges	80,934	80,934	149,205
Current portion of long term payable (Note 18)	-	-	351,464
Advances paid	109,072	80,330	10,916
Other payables	760,102	609,204	1,429,464
Total	17,174,761	15,727,456	12,088,027

18. OTHER NON-CURRENT PAYABLES

At 31 December other non-current payables are as follows:

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Within one year	-	-	351,464
In the second year	-	-	351,464
In the third to fifth years inclusive	-	-	1,054,391
After five years	-	-	1,054,391
Total	-	-	2,811,710
Less: current portion (note 17)	-	-	351,464
Total non-current payables	-	-	2,460,246

In the year 2003 the Company has purchased a land plot with delayed payment till 2012. The annual interest rate started to calculate from 1 January 2004 is 2% (Note 10).

AB GRIGIŠKĒS

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

19. BUSINESS AND GEOGRAPHICAL SEGMENTS

THE GROUP

Business segments

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

2005	Paper	Fiber	Wood processing	Unallocated	Total
	LTL	LTL	LTL	LTL	LTL
Sales	45,751,142	49,314,863	4,805,585	4,884,779	104,756,369
Cost of sales	(32,971,858)	(38,854,691)	(3,737,507)	(3,115,642)	(78,679,698)
Gross profit	12,779,284	10,460,172	1,068,078	1,769,137	26,076,671
Depreciation and amortisation	3,026,318	1,306,890	620,262	1,950,633	6,904,103
Segment tangible and intangible fixed assets	25,298,557	15,416,104	13,533,329	28,631,572	82,879,562
Segment tangible and intangible fixed assets additions	10,510,485	8,964,416	558,876	3,576,221	23,609,998

Geographical segments

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

Sales by geographical segments	2005
Local market	63,148,057
Export	
Sweden	7,978,796
Latvia	6,043,264
Great Britain	2,313,933
JAV	2,634,363
Estonia	3,930,596
Netherlands	4,472,793
Poland	7,389,826
Denmark	2,155,174
Hungary	1,638,745
Czechia	961,716
Germany	309,024
Belaruss	623,477
Other countries	1,156,605
TOTAL	104,756,369

(continued)

AB GRIGIŠKĖS

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

(continued)

THE COMPANY

Business segments

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

	Paper		Fiber		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
Sales	45,751,142	41,889,149	49,314,863	49,460,412	6,248,099	5,232,459	101,314,104	96,582,020
Cost of sales	32,971,858	28,490,765	38,854,691	36,850,794	4,478,962	3,704,503	76,305,511	69,046,062
Segment gross profit	12,779,284	13,398,384	10,460,172	12,609,618	1,769,137	1,527,956	25,008,593	27,535,958
Depreciation and amortisation	3,026,318	2,607,497	1,306,890	943,686	1,950,633	1,552,266	6,283,841	5,103,449
Segment tangible and intangible fixed assets	25,298,557	18,404,012	15,416,104	7,260,618	23,786,322	24,093,900	64,500,983	49,758,530
Segment tangible and intangible fixed assets additions	10,510,485	8,853,749	8,964,416	1,438,553	3,576,221	1,738,326	23,051,122	12,030,628

Geographical segments

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

2005	Paper		Fiber		Unallocated		Total	
	Local	Export	Local	Export	Local	Export	Local	Export
	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
Sales	28,651,752	17,099,390	26,404,601	22,910,262	6,232,134	15,965	61,288,487	40,025,617
Cost of sales	19,562,495	13,409,363	20,944,395	17,910,296	4,475,215	3,747	44,982,105	31,323,406
Gross profit	9,089,257	3,690,027	5,460,206	4,999,966	1,756,919	12,218	16,306,382	8,702,211

2004	Paper		Fiber		Unallocated		Total	
	Local	Export	Local	Export	Local	Export	Local	Export
	LTL	LTL	LTL	LTL	LTL	LTL	LTL	LTL
Sales	30,858,455	11,030,694	24,843,974	24,616,438	5,181,515	50,944	60,883,944	35,698,076
Cost of sales	21,114,438	7,376,327	18,593,313	18,257,481	3,671,154	33,349	43,378,905	25,667,157
Gross profit	9,744,017	3,654,367	6,250,661	6,358,957	1,510,361	17,595	17,505,039	10,030,919

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

(concluded)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**
20. OTHER OPERATING INCOME

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

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Compensation received for Naujieji Verkiai sewerage pumping station and pressure line building transfer to Vilnius national water supply company	2,144,032	2,144,032	-
Rent income	172,548	212,016	331,744
Gain from disposal of fixed assets	92,598	91,985	1,277,795
The reversal of inventory written off, scrap recognition	75,414	75,414	94,525
Fines	6,237	6,237	11,198
Insurance compensation	5,863	5,863	34,168
Write off of accounts payables	3,324	3,324	12,663
Communication income	280	280	667
VAT exemption	-	-	26,793
Other income	227,155	227,155	10,925
Total	2,727,451	2,766,306	1,800,478

21. OTHER OPERATING EXPENSES

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

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Rent expenses	15,035	15,035	23,281
Other expenses	66,412	66,412	8,756
Total	81,447	81,447	32,037

AB GRIGIŠKĖS

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

22. SELLING AND DISTRIBUTION EXPENSES

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

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Transportation expenses	4,851,607	4,483,884	5,548,154
Salaries and related taxes	1,239,082	1,239,082	1,215,990
Advertisement expenses	796,040	796,040	865,451
Repairs and maintenance	447,369	447,369	379,268
Mediatory, market research and marketing expenses	388,261	383,799	1,267,815
Own transport expenses	160,900	160,900	180,528
Communication expenses	65,473	65,473	53,394
Depreciation	59,802	59,802	45,369
Representation expenses	57,340	57,340	44,029
New products development expenses	51,878	51,878	42,185
Business trip expenses	49,770	49,770	48,263
Harbour services expenses	49,272	49,272	131,871
Production and goods credit insurance	2,187	-	144,489
Other selling expenses	193,784	193,784	208,266
Total	8,412,765	8,038,393	10,175,072

23. ADMINISTRATIVE EXPENSES

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

	Group	Company	
	2005	2005	2004
	LTL	LTL	LTL
Salaries and related expenses	2,959,474	2,718,354	2,623,433
Repairs and maintenance	1,918,538	1,893,934	2,250,867
Taxes	902,876	855,218	1,197,160
Security expenses	426,142	444,142	448,824
Redundancy pay and related taxes	289,978	289,978	544,591
Insurance expenses	267,072	267,072	102,053
Depreciation and amortisation	265,972	242,491	265,186
Expenses under social program	203,287	203,287	178,901
Vacation reserve	186,081	186,081	267,149
Bank fees expenses	207,966	184,498	143,877
Business trip expenses	115,115	114,605	85,935
Professional services	100,974	75,950	217,206
Communication expenses	99,950	86,971	122,474
Provisions (reversal of provisions) for slow moving inventory	43,614	43,614	(142,386)
Representation expenses	40,720	40,720	41,975
Write off of bad debts	38,961	38,961	564,987
Impairment of investments in subsidiary	35,072	35,072	64,928
Write off to net realisable value and low value inventory	34,650	31,604	38,533
Employees training expenses	27,657	30,225	50,480
Restitution in case of disablement	25,719	25,719	22,626
Transport expenses	21,948	-	-
Write off of fixed assets	21,694	21,694	20,215
Advertisement expenses	17,507	17,507	5,247
Membership and admission fee expenses	16,781	16,781	17,400
Fixed assets impairment losses (reversal)	(31,464)	(31,464)	112,639
Provisions for doubtful accounts receivables (reversal)	(998,175)	(998,175)	36,429
Other administrative expenses	1,795,087	1,742,932	1,347,090
Total	9,033,196	8,577,771	10,627,819

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**
24. INCOME TAX

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

	The Group			The Company		
	2005	%	2005	%	2004	%
	LTL		LTL		LTL	
Profit before income tax	<u>11,657,516</u>		<u>11,049,707</u>		<u>8,043,238</u>	
Tax at the statutory income taxes rate of 15%	1,748,627	15	1,657,456	15	1,206,486	15
Tax effect of items that are not taxable in determining taxable profit	(213,403)	(2)	(58,608)	(1)	(184,071)	(2)
Tax effect of items that are not deductible in determining taxable profit	385,682	4	321,344	3	323,198	4
Increase in deferred tax assets/liabilities due to change in income tax rate (2006 - 19%, 2007 - 18%)	23,097	-	25,511	-	-	-
Increase (decrease) in deferred tax asset valuation allowance	(315,188)	(3)	(314,888)	(2)	42,829	-
Income tax expense	<u>1,628,815</u>	14	<u>1,630,815</u>	14	<u>1,388,442</u>	17

The components of income tax expense are as follows:

Current income tax expense	1,668,359	1,668,359	1,457,810
Deferred income tax benefit	(39,544)	(37,544)	(69,368)
Income tax expense	<u>1,628,815</u>	<u>1,630,815</u>	<u>1,388,442</u>

The components of deferred tax assets and liabilities are summarized as follows:

	The Group	The Company	
	2005	2005	2004
	LTL	LTL	LTL
Deferred tax assets:			
Tax loss carried forward	416,560	-	-
Provisions and write offs	336,818	332,768	698,789
Accruals	241,089	225,038	173,905
Total deferred tax assets	994,467	557,806	872,694
Deferred tax liabilities:			
Depreciation	(994,828)	(644,161)	(707,216)
Total deferred tax liabilities	(994,828)	(644,161)	(707,216)
Increase in deferred tax liabilities due to change in income tax rate (2006 - 19%, 2007 - 18%)	(23,097)	(25,511)	-
Total deferred tax (liabilities)/assets, net	(23,458)	(111,866)	165,478
Less: valuation allowance	(998,747)	(557,806)	(872,694)
Total deferred tax (liability)	<u>(1,022,205)</u>	<u>(669,672)</u>	<u>(707,216)</u>

Lithuanian income tax law allows to carry forward tax losses of prior periods for deduction against future periods tax profits for not more than five years after the origin of the tax loss.

Maturity of tax loss carried forward is as follows:

Maturity	Tax loss carried forward (LTL)
2008	42,121
2009	258,030
2010	116,409
Total	<u>416,560</u>

AB GRIGIŠKĖS

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

25. ACQUISITION OF SUBSIDIARY

On 20 June 2005, the Company acquired 50 % of the issued share capital of UAB Baltwood for cash consideration of LTL 1,395,000. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the resulting goodwill, are as follows:

	Acquiree's carrying amount before combination LTL	Fair value adjustments LTL	Fair value LTL
UAB Baltwood net assets acquired:			
Intangible assets	2,360,499	-	2,360,499
Property, plant and equipment	11,234,216	-	11,234,216
Inventories	1,163,446	-	1,163,446
Trade receivables and prepayments	696,751	-	696,751
Cash and cash equivalents	14,871	-	14,871
Long term debt	(3,853,455)	-	(3,853,455)
Deferred tax liability	(354,533)	-	(354,533)
Trade and other payables	(2,593,490)	-	(2,593,490)
Short term debts	(3,695,244)	-	(3,695,244)
Other liabilities	(144,108)	-	(144,108)
	4,828,953	-	4,828,953
Group's share (50%) of associates' net assets			2,414,477
Negative goodwill			1,019,477
Total consideration, satisfied by cash (note 9)			1,395,000
Net cash outflow arising on acquisition:			
Cash consideration paid			1,395,000
Cash and cash equivalents acquired			(14,871)
			(1,380,129)

The negative goodwill acquired in the business combinations were released to income in the income statement.

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

26. LITIGATION AND CLAIMS

Litigation and claims – At 31 December 2005 and 2004 the Group and the Company 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.

27. RELATED PARTY TRANSACTIONS

THE GROUP

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

	Sale of goods and services LTL	Purchase of goods and services LTL	Amounts owed by related parties LTL	Amounts owed to related parties LTL
UAB Ginvildos investicija	-	1,113,786	-	120,832
Dansk Traemalage A/S	2,413,082	-	13,480	250,000
UAB Didma	49,516	1,310,885	-	407,770
UAB Remada	2,560	-	408	-
UAB Grigiškių transporto centras	7,652	52,425	119,958	-
Total	2,472,810	2,477,096	133,846	778,602

UAB Grigiškių transporto centras – a subsidiary of the Group. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Group management. Dansk Traemalage A/S UAB Baltwood shareholder till 20 June 2005.

All purchases from related parties were at arm's length basis.

For the year ended 31 December 2005 the remuneration of the Group's management was as follows:

2005

LTL

Remuneration to management	1,039,571
Average number of managers	10

(continued)

AB GRIGIŠKĖS

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

(continued)

THE COMPANY

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

	Sale of goods and services LTL	Purchase of goods and services LTL	Amounts owed by related parties LTL	Amounts owed to related parties LTL
UAB Baltwood	2,075,624	1,311,918	1,406,975	-
UAB Ginvildos investicija	-	1,113,786	-	120,832
UAB Didma	49,516	1,310,885	-	407,770
UAB Remada	2,560	-	408	-
UAB Grigiškių transporto centras	7,652	52,425	119,958	-
Total	2,135,352	3,789,014	1,527,341	528,602

During 2004 the Company entered into the following transactions and had the following outstanding balances at 31 December 2004 with related parties:

	Sale of goods and services LTL	Purchase of goods and services LTL	Amounts owed by related parties LTL	Amounts owed to related parties LTL
UAB Baltwood	864,386	1,484,043	1,089,984	-
UAB Ginvildos investicija	-	1,821,351	-	431,983
UAB Didma	9,850	692,867	-	72,494
UAB Remada	120,703	-	6,497,072	-
UAB Grigiškių transporto centras	15,446	20,610	312,077	-
	1,010,385	4,018,871	7,899,133	504,477

UAB Grigiškių transporto centras and UAB Baltwood are subsidiaries of the Group. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Group management.

All purchases from related parties were at arm's length basis.

For the year ended 31 December the remuneration of the Company's management was as follows:

	2005 LTL	2004 LTL
Remuneration to management	985,658	984,231
Average number of managers	9	8

(concluded)

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**
28. TRANSITION FROM LITHUANIAN BUSINESS ACCOUNTING STANDARDS (BAS) TO IFRS

The accounting policies were changed on 1 January 2005 to comply with IFRS. The transition to IFRS is accounted for in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, with 1 January 2004 as the date of transition. The changes in the accounting policies as a consequence of the transition to IFRS, and the reconciliations of the effect of the transition to IFRS are presented and described below.

The transition to IFRS resulted in the following changes in accounting policies:

- The Group and the Company has applied IAS 12 "Income Taxes" to temporary differences between the carrying amount of the assets and liabilities in its opening IFRS balance sheet and their tax bases. The resulting change was recognised by adjusting retained earnings.
- The Company has applied IAS 28 "Investments in Associates" to account investments in associate in separate financial statements at cost; The resulting change was recognised by adjusting retained earnings;
- The Company has applied IAS 27 "Consolidated and Separate Financial Statements" to account for investments in a subsidiary in separate financial statements at cost; The resulting change was recognised by adjusting retained earnings.

Effect of IFRS adoption on the financial statements:

The Company	As at 1 January 2004 (date of transition)			As at 31 December 2004 (end of last period reported under BAS)		
	Effect of transition to IFRS		IFRS	Effect of transition to IFRS		IFRS
	BAS LTL	LTL		BAS	LTL	
Investments in associates	1,590,458	117,042	1,707,500	743,647	966,353	1,710,000
Investments in subsidiary	-	-	-	35,072	-	35,072
Total assets	75,632,972	117,042	75,750,014	80,382,229	966,353	81,348,582
Deferred tax liability	72,161	704,423	776,584	70,284	636,932	707,216
Total liabilities	26,486,973	704,423	27,191,396	25,498,276	636,932	26,135,208
Retained earnings	5,993,663	(587,381)	5,406,282	11,520,896	329,421	11,850,317
Total equity	49,145,999	(587,381)	48,558,618	54,883,953	329,421	55,213,374
2004 (the latest period presented under BAS)						
Administrative expenses	(10,496,012)	(131,807)	(10,627,819)			
Share of loss of associates	(981,117)	981,117	-			
Income tax (expense)	(1,455,973)	67,491	(1,388,482)			
Profit for the year	5,737,954	916,802	6,654,756			

(continued)

AB GRIGIŠKĖS

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

The Group	As at 1 January 2004 (date of transition)			As at 31 December 2004 (end of last period reported under BAS)		
	Effect of transition		IFRS	Effect of transition		IFRS
	BAS	to IFRS		BAS	to IFRS	
	LTL	LTL	LTL			
Deferred tax liability	72,161	704,423	776,584	70,284	636,932	707,216
Total liabilities	26,486,973	704,423	27,191,396	25,498,276	636,932	26,135,208
Retained earnings	5,993,663	(704,423)	5,289,240	11,520,896	(636,932)	10,883,964
Total equity	49,145,999	(704,423)	48,441,576	54,883,953	(636,932)	54,247,021
2004 (the latest period presented under BAS)						
Income tax (expense)	(1,455,973)	67,491	(1,388,482)			
Profit for the year	5,737,954	67,491	5,805,445			

(concluded)

29. SUBSEQUENT EVENTS

On 6 January 2006 the Group has signed a loan agreement with AB SEB Vilniaus bankas amounting to EUR 499,000 with maturity at 23 December 2011 and interest rate - 6 EURIBOR + 1.35% for the purpose of acquiring shield production line.
