PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF STUMBRAS AB

1. We have audited the balance sheet of Stumbras AB (hereinafter "the Company") as at 31 December 2005 and we were engaged to audit the related statements of income, cash flows and changes in shareholders' equity for the year then ended prepared in accordance with International Financial Reporting Standards as adopted by the European Union, from which the accompanying summarised financial statements were derived, in accordance with International Standards on Auditing. We have issued a qualified auditor's report dated 30 March 2006 on the financial statements from which the accompanying summarised financial statements were derived because of the significance of the matter referred to in paragraph 2.

2. We did not perform an audit or review of the Company's financial statements for the year ended 31 December 2004. The amounts presented in the balance sheet as at 31 December 2004 enter into the determination of the results of operation and cash flows for the year ended 31 December 2005. Accordingly, we did not express our opinion as to whether the financial statements give a true and fair view of the comparative figures included in the financial statements for the year ended 31 December 2005 and the results of the Company's operations and cash flows for the year then ended.

3. In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived.

4. For a better understanding of the Company's financial position and the results of its operations and cash flows, management's responsibility for the financial statements and the scope of our audit, summarised financial statements should be read in conjunction with the financial statements from which they were derived and our auditor's report thereon.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Ona Armalienė
Auditor's Certificate No.000008

Vilnius, Republic of Lithuania
4 April 2006

STUMBRAS AB

SHORTENED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

CONTENTS

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On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler	Ona Armalienė
Partner	Auditor’s Certificate No.000008

Vilnius, Republic of Lithuania
XX March 2006

(all tabular amounts are in LTL'000 unless otherwise stated)

Balance sheet

	Note	As at 31 December	
ASSETS		**2005**	**2004**
Non-current assets			
Property, plant and equipment	7	23,508	48,378
Intangible assets	8	459	211
Deferred income tax assets	9	73	-
Available-for-sale financial assets		15	15
Non-current receivables and deferred charges	10	1,485	121,500
		25,540	170,104
Current assets			
Inventories	11	18,322	18,759
Trade and other receivables and prepayments	12	63,978	17,844
Prepaid current income tax		527	1,530
Cash and cash equivalents	13	12,674	7,305
		95,501	45,438
Non-current assets classified as held for sale	22	6,231	-
		101,732	45,438
Total assets		127,272	215,542
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	39,685	130,676
Reserves	15	-	11,864
Retained earnings		23,655	19,219
Total equity		63,340	161,759
LIABILITIES			
Non-current liabilities			
Borrowings	17	21,923	-
		21,923	-
Current liabilities			
Trade and other payables	16	35,626	53,150
Borrowings	17	4,231	-
Deferred income	18	1,593	633
Provisions for other liabilities and charges		559	-
		42,009	53,783
Total liabilities		63,923	53,783
Total equity and liabilities		127,272	215,542

The General Director and the Finance Director approved the shortened financial statements on pages 4 to 35 on 30 March 2006.

Česlovas Matulevičius
General Director

Voldemaras Kallo
Finance Director

The notes on pages 8 to 33 are an integral part of these financial statements.

(all tabular amounts are in LTL'000 unless otherwise stated)

Income statement

	Note	Year ended 31 December 2005	2004
Continuing operations:			
Sales	6	82,770	76,243
Cost of sales		(39,834)	(40,335)
Gross profit		42,936	35,908
Other gains (losses)-net		18	(3)
Selling and marketing costs		(8,091)	(3,362)
Administrative expenses		(13,977)	(18,919)
Other income	19	4,218	6,061
Other expenses		(1,707)	(3,573)
Operating profit		23,397	16,112
Finance costs	20	(942)	-
Profit before income tax		22,455	16,112
Income tax expense	21	(1,230)	(929)
Profit for the year from continuing operations		21,225	15,183
Discontinued operations:			
Revenue from discontinued operations		19,715	7,647
Expenses related to discontinued operations		(21,135)	(16,443)
Loss for the year from discontinued operations	22	(1,420)	(8,796)
Profit for the year		19,805	6,387
Basic and diluted Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in LTL per share)	23	0.54	0.49
Basic and diluted earnings per share for profit from discontinued operations attributable to the equity holders of the Company during the year (expressed in LTL per share)	23	(0.04)	(0.29)

The notes on pages 8 to 33 are an integral part of these shortened financial statements.

(all tabular amounts are in LTL'000 unless otherwise stated)

Statement of changes in equity

	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2004		118,640	11,864	12,832	143,336
Profit for the year		-	-	6,387	6,387
Total recognised income for 2004		118,640	11,864	19,219	149,723
Issue of share capital		12,036	-	-	12,036
Balance at 31 December 2004		130,676	11,864	19,219	161,759
Balance at 1 January 2005		130,676	11,864	19,219	161,759
Profit for the period		-	-	19,805	19,805
Total recognised income for 2005		130,676	11,864	39,024	181,564
Issue of share capital	14	28,065	-	-	28,065
Transfer to legal reserve	15	-	1,204	(1,204)	-
Dividend relating to 2004	24	-	-	(13,890)	(13,890)
Transfer of net assets at the moment of reorganisation	22	(119,056)	(13,068)	(275)	(132,399)
Balance at 31 December 2005		39,685	-	23,655	63,340

The notes on pages 8 to 33 are an integral part of these shortened financial statements.

(all tabular amounts are in LTL'000 unless otherwise stated)

Cash flow statement

	Note	Year ended 31 December 2005	2004
Cash flows from operating activities			
Cash generated from operations	25	16,125	1,033
Interest received		330	1,832
Interest paid		(942)	-
Income tax paid		(1,169)	(1,596)
Net cash generated from operating activities		14,344	1,269
Cash flows from investing activities			
Purchases of property, plant and equipment		(13,038)	(6,354)
Proceeds from sale of property, plant and equipment		9,544	5,362
Purchases of intangible assets		(439)	(126)
Purchases of available for sale financial assets		-	(15)
Loans granted to related parties		(38,000)	(55,200)
Loan repayments received from related parties		20,667	13,700
Loan repayments received from employees		11	7
Net cash used in investing activities		(21,255)	(42,626)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		5	40,096
Proceeds from borrowings		30,000	-
Repayments of borrowings		(3,846)	-
Dividends paid to the Company's shareholders		(13,879)	(2)
Net cash used in financing activities		12,280	40,094
Net (decrease)/increase in cash, cash equivalents		5,369	(1,263)
Cash and cash equivalents at beginning of period	13	7,305	8,568
Cash and cash equivalents at end of period	13	12,674	7,305

The notes on pages 8 to 33 are an integral part of these shortened financial statements.

(all tabular amounts are in LTL'000 unless otherwise stated)

Notes to the financial statements

1. General information

Stumbras AB (the Company) was registered as a Lithuanian Closed Stock Company under the laws of the Republic of Lithuania on 17 December 1990. Company's code 132082782. The shares of the Company are listed on the Current List of the National Stock Exchange.The shareholders of the Company are:

	31 December 2005	31 December 2004
Mineraliniai vandenys UAB	99.40 per cent	99.36 per cent
Other	0.60 per cent	0.64 per cent

The ultimate parent of the Company is Koncernas MG Baltic incorporated in Lithuania. Mr. Darius Juozas Mockus is the 100% owner of Koncernas MG Baltic.

The Company is a limited liability company incorporated and domiciled in Kaunas. The address of its registered office is as follows:

K.Būgos 7
LT-44355 Kaunas
Lithuania

The Company is involved in production and trade of strong alcohol drinks.

The number of employees as at 31 December 2005 amounted to 341 (31 December 2004: 409).

As at 31 December 2004 the Company had production plants in the following Lithuanian cities: Kaunas, Antanavas, Balbieriškis and Šilutė. In December 2005 the Company demerged its operations by continuing production of strong alcohol beverages as Stumbras AB in Kaunas and establishing new company Biofuture AB for the production of non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol in Šilutė. The demerger was achieved by means of dividend in specie of the shares in the entity that is disposed of to the Company's existing shareholders. All Company's shares with 4 LTL nominal value each were exchanged to the same quantity of Biofuture AB shares with 3 LTL nominal value each. Company's shareholders also retained the same quantity of Company's shares with 1 LTL nominal value each.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements of Stumbras AB have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB and are covered by IFRS 1, First-time Adoption of IFRS. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, excluding certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

2.1 Basis of preparation (continued)

Stumbras AB financial statements were prepared in accordance with Accounting Principles Generally Accepted in the Lithuania (GAAP) until 31 December 2004. GAAP differs in some areas from IFRS. In preparing Stumbras AB 2005 financial statements, management has amended certain accounting and valuation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Company's equity and its net income and cash flows are provided in Note 5.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006) IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss. The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Company's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006) The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006) Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006) The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

(all tabular amounts are in LTL'000 unless otherwise stated)

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006) IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006) IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006) Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006) The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007) The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007) The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

IFRIC 9, Re-assessment of embedded derivatives On 1 March 2006, the IFRIC issued an Interpretation – IFRIC 9, 'Re-assessment of embedded derivatives'. IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, 'Financial instruments: Recognition and measurement'. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006) This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006) This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Company's financial statements.

(all tabular amounts are in LTL'000 unless otherwise stated)

2.2 Segment reporting

A business segment is a group of assets and operations 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 engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in litas (LTL), which is the Company's functional and presentation currency.

From 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment is stated at cost less subsequent depreciation and impairment. Land is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

– Buildings	15 - 20 years
– Plant and machinery	5 - 10 years
– Vehicles	6 - 10 years
– Other property, plant and equipment	3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually at each year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.5 Intangible assets

(a) Patents and licences

Patents and licences are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation less impairment. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives (3 years).

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and whether the investment is quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and deferred charges in the balance sheet. Loans and receivables are included in trade and other receivables and prepayments in the balance sheet (see Note 2.9).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the balance sheet date in which case they are included in current assets.

2.7 Financial assets (continued)

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little s possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in income statement. Impairment testing of trade receivables is described in Note 2.9.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(all tabular amounts are in LTL'000 unless otherwise stated)

2.9 Trade receivables

Trade receivables are recognised initially at fair value of the amount receivable and subsequently measured at amortised cost using the effective interest method. Amortised cost is the amount at which the receivable was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

2.10 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. The Company measures non-current assets classified as held for sale at the lower of the carrying amount and fair value less costs to sell.

The Company adopted IFRS 5 from 1 January 2005 prospectively in accordance with the standard's provisions. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. Such non-current assets (or disposal groups) were not previously measured differently from other assets and liabilities.

2.11 Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(all tabular amounts are in LTL'000 unless otherwise stated)

2.15 Employee benefits

(a) Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.16 Provisions

Provisions for legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, excise tax, rebates and discounts. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when an entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.18 Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made or received under operating leases are charged/credited to the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Non-monetary government grants are recognised at their nominal amount.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. However, foreign exchange risk is not considered to be significant as only a few purchase and sales agreements are carried out in US dollars.

(ii) Price risk

The Company is not exposed to commodity price risk or equity securities price risk.

(b) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure on a continuous basis that wholesale sales of products are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

3.1 Financial risk factors (continued)

(d) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Loans provided to related parties expose the Company to fair value interest rate risk. The Company's cash flow and fair value interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and the nominal value of accounts payable is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for liabilities and charges

Provisions for liabilities and charges were determined based on the management's expectation on the future outflow of resources.

4.2 Critical judgements in applying the Company's accounting policies

Accounting for the discontinued operations

In December 2005 the Company separated its operations by continuing production of strong alcohol beverages as Stumbras AB in Kaunas and establishing new company Biofuture AB for the production of non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol in Šilutė. The demerger was achieved by means of dividend in specie of the shares in the entity that is disposed of to the Company's existing shareholders. No gains or losses have been recognised on the disposal because it is a transaction with the Company's shareholders. After the demerger results of production plants in Antanavas, Balbieriškis and Šilutė were presented as discontinued operations based on the assumption that a demerger may be treated in the same way as abandonment for presentation purposes under IFRS 5. Dividend in specie is charged to equity and shown in the financial statements at the amount of net assets attributable to the demerged subsidiary at the date of the demerger.

5. Transition to IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

The Company's financial statements for the year ending 31 December 2005 are the first annual financial statements prepared in accordance with IFRS. These financial statements have been prepared as described in Note 2.1. The Company has applied IFRS 1 in preparing these financial statements.

The Company's transition date is 1 January 2004. The Company prepared its opening IFRS balance sheet at that date. The reporting date of these financial statements is 31 December 2005. The Company's IFRS adoption date is 1 January 2005.

In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

5.1.2 Exemptions from full retrospective application – elected by the Company

The Company has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

As there were no business combinations this exemption is not applicable.

(b) Fair value as deemed cost exemption

The Company has elected to measure certain items of property, plant and equipment at fair value as at 1 January 2004. The application of this exemption is detailed in Note 5.2.2.

(c) Employee benefits exemption

The Company does not have defined employee benefit plans for which "corridor" approach is applied; this exemption is not applicable.

(d) Cumulative translation differences exemption

The Company does not have cumulative translation differences; this exemption is not applicable.

(e) Compound financial instruments exemption

The Company has not issued any compound instruments; this exemption is not applicable.

(f) Assets and liabilities of subsidiaries, associates and joint ventures exemption

This exemption is not applicable, as the Company does not have subsidiaries, associates or joint ventures.

(g) Exemption from restatement of comparatives for IAS 32 and IAS 39.

Previous GAAP was similar to IFRS in treatment of derivatives, financial assets, financial liabilities and hedging relationships. As a result the Company has not applied the exemption from restating the 2004 comparatives for effects of IAS 32 and IAS 39.

5.1.2 Exemptions from full retrospective application – elected by the Company (continued)

(h) Designation of financial assets and financial liabilities exemption

The Company reclassified various securities as available-for-sale investments.

(i) Share-based payment transaction exemption

The Company does not have share plans and share option plans, therefore this exemption is not applicable.

(j) Insurance contracts exemption

The Company does not issue insurance contracts; this exemption is not applicable.

(k) Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment exemption

The Company does not have such liabilities; this exemption is not applicable.

(l) *Fair value measurement of financial assets and liabilities exemption*

This exemption is not applicable.

5.1.3 Exceptions from full retrospective application followed by the Company

The Company has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The Group had no financial assets and liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria.

(b) Hedge accounting exception

Management has not claimed hedge accounting.

(c) Estimates exception

Estimates under IFRS at 1 January 2004 and 31 December 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error. Estimates made by the Group under previous GAAP at 1 January 2004 and 31 December 2004 are consistent with estimates under IFRS.

(d) Assets held for sale and discontinued operations exception

Management applies IFRS 5 prospectively from 1 January 2004, see Note 2.10.

5.2 Reconciliations between IFRS and GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The below reconciliations provide an overview of the impact on equity of the transition at 1 January 2004 and 31 December 2004 and impact on the balance sheet as at 1 January 2004 and 31 December 2004. There was no effect on the income statement of the transition to IFRS other than a change in the presentation and classification.

(all tabular amounts are in LTL'000 unless otherwise stated)

	Note	**Share capital**	**Legal reserve**	**Revaluation reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2004						
Under previous GAAP		118,640	11,864	4,024	9,245	143,773
Reclassification of revaluation reserve	5.2.1	-	-	(4,024)	4,024	-
Recognition of bonuses for 2003 in the related period	5.2.1	-	-	-	(437)	(437)
Under IFRS		118,640	11,864	-	12,832	143,336
Balance at 31 December 2004						
Under previous GAAP		130,676	11,864	3,850	15,369	161,759
Reclassification of revaluation reserve	5.2.1	-	-	(3,850)	3,850	-
Under IFRS		130,676	11,864	-	19,219	161,759

5.2.1 Explanation of the effect on equity of the transition to IFRS

Under previous GAAP property, plant and equipment were shown at fair value based on valuations by external independend valuers, less subsequent depreciation.

The Company's buildings were revalued as at 1 January 2004 by independent professional valuers. Valuations were based on comparative values of similar assets. As a result of revaluation carrying value of certain items were increased by LTL 4,024 thousand and carrying value of other items decreased by LTL 25,214 thousand.

Increases in the carrying amount arising on revaluation of land and buildings were credited to revaluation reserve in shareholders' equity, decreases were charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost was transferred from revaluation reserve to retained earnings. Under IFRS the Company has applied fair value as deemed cost exemption and elected to measure certain items of property, plant and equipment at fair value as at 1 January 2004, therefore revaluation reserve was reclassified to retained earnings.

The aggregate of fair values of the assets which were subject to fair value as deemed cost exemption amounted to LTL 20,553 thousand.

The Company recorded bonuses related to 2003 as a distribution of profit for the year ended 31 December 2004. To correct the error in IFRS financial statements the adjustment was made to retained earnings as at 1 January 2004.

(all tabular amounts are in LTL'000 unless otherwise stated)

5.2.2 Summary of the effect of the transition to IFRS on the balance sheet

	Note	At 1 January 2004			At 31 December 2004		
ASSETS		**GAAP**	**Effect of transition to IFRS**	**IFRS**	**GAAP**	**Effect of transition to IFRS**	**IFRS**
Non-current assets							
Property, plant and equipment		52,309	-	52,309	48,378	-	48,378
Intangible assets		212	-	212	211	-	211
Available-for-sale financial assets		750	-	750	15	-	15
Non-current receivables and deferred charges		1	-	1	121,500	-	121,500
		53,272	-	53,272	170,104	-	170,104
Current assets							
Inventories		20,168	-	20,168	18,759	-	18,759
Trade and other receivables and prepayments		82,556	-	82,556	17,844	-	17,844
Prepaid income tax		856	-	856	1,530		1,530
Cash and cash equivalents		8,568	-	8,568	7,305	-	7,305
		112,148	-	112,148	45,438	-	45,438
Total assets		165,420	-	165,420	215,542	-	215,542
EQUITY							
Capital and reserves							
Share capital		118,640	-	118,640	130,676	-	130,676
Other reserves	5.2.1	15,888	(4,024)	11,864	15,714	(3,850)	11,864
Retained earnings	5.2.1	9,245	3,587	12,832	15,369	3,850	19,219
Total equity		143,773	(437)	143,336	161,759	-	161,759
LIABILITIES							
Current liabilities							
Trade and other payables	5.2.1	21,647	437	22,084	53,150	-	53,150
Deferred income		-	-	-	633	-	633
Total liabilities		21,647	437	22,084	53,783	-	53,783
Total equity and liabilities		165,420	-	165,420	215,542	-	215,542

5.2.3 Reconciliation of cash flows for the year ended 31 December 2004

The main IFRS transition effect presented by the Company in its statement of cash flow for the year ended 31 December 2004 were changes in the presentation of the items.

(all tabular amounts are in LTL'000 unless otherwise stated)

6. Analysis of sales

	2005	2004
Sales of goods	82,093	74,243
Revenue from services	677	2,000
	82,770	76,243

7. Property, plant and equipment

	Land and buildings	Plant and machinery	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
At 1 January 2004						
Cost	36,294	41,642	4,119	8,988	4,891	95,934
Accumulated depreciation	(15,741)	(20,504)	(2,683)	(4,697)	-	(43,625)
Net book amount	20,553	21,138	1,436	4,291	4,891	52,309
Year ended 31 December 2004						
Opening net book amount	20,553	21,138	1,436	4,291	4,891	52,309
Additions	536	545	32	450	4,791	6,354
Disposals	(3,876)	(584)	(368)	(172)	-	(5,000)
Reclassifications	(36)	5,885	-	90	(5,939)	-
Depreciation charge	(419)	(3,745)	(218)	(903)	-	(5,285)
Closing net book amount	16,758	23,239	882	3,756	3,743	48,378
At 31 December 2004						
Cost	31,851	45,078	2,490	8,265	3,743	91,427
Accumulated depreciation	(15,093)	(21,839)	(1,608)	(4,509)	-	(43,049)
Net book amount	16,758	23,239	882	3,756	3,743	48,378
Year ended 31 December 2005						
Opening net book amount	16,758	23,239	882	3,756	3,743	48,378
Additions	468	785	6	214	11,565	13,038
Disposals	(9,448)	(13,480)	(167)	(2,924)	(2,372)	(28,391)
Reclassifications	1,882	8,905	-	1,185	(11,972)	-
Reclassifications to non-current assets classified as held for sale	(552)	(4,425)	(45)	(200)	(908)	(6,130)
Reclassifications from current assets	-	-	-	1,868	52	1,920
Depreciation charge	(391)	(4,007)	(163)	(746)	-	(5,307)
Closing net book amount	8,717	11,017	513	3,153	108	23,508
At 31 December 2005						
Cost	11,644	28,362	1,781	5,757	108	47,652
Accumulated depreciation and impairment	(2,927)	(17,345)	(1,268)	(2,604)	-	(24,144)
Net book amount	8,717	11,017	513	3,153	108	23,508

(all tabular amounts are in LTL'000 unless otherwise stated)

7. Property, plant and equipment (continued)

Depreciation and amortisation expense has been allocated as follows:

	2005	**2004**
Cost of goods sold	3,425	3,128
Administrative expenses	1,981	2,285
	5,406	5,413

As at 31 December 2005 property, plant and equipment for the net book value LTL 17,964 thousand (2004: no pledged assets) and land rent rights for the value of LTL 4 thousand were provided as collateral for bank borrowings (Note 17).

No borrowing costs were capitalised during the years ended 31 December 2005 and 31 December 2004.

Lease rentals amounting to LTL 310 thousand (2004: LTL 191 thousand) relating to the lease of property, plant and equipment are included in the income statement.

8. Intangible assets

	Patents and licences	**Software**	**Total**
At 1 January 2004			
Cost	342	380	722
Accumulated amortisation	(222)	(288)	(510)
Net book amount	120	92	212
Year ended 31 December 2004			
Opening net book amount	120	92	212
Additions	90	36	126
Amortisation charge	(49)	(78)	(127)
Closing net book amount	161	50	211
At 31 December 2004			
Cost	432	199	631
Accumulated amortisation	(271)	(149)	(420)
Net book amount	161	50	211
Year ended 31 December 2005			
Opening net book amount	161	50	211
Additions	269	170	439
Disposals	(39)	-	(39)
Reclassifications to non-current assets classified as held for sale	-	(52)	(52)
Amortisation charge	(64)	(36)	(100)
Closing net book amount	327	132	459
At 31 December 2005			
Cost	572	316	888
Accumulated amortisation	(245)	(184)	(429)
Net book amount	327	132	459

The Company does not have internally generated intangible assets.

(all tabular amounts are in LTL'000 unless otherwise stated)

9. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005	**2004**
Deferred tax assets:		
– to be recovered after more than 12 months	(392)	-
– to be recovered within 12 months	(190)	-
	(582)	-
Deferred tax liabilities:		
– to be recovered after more than 12 months	490	-
– to be recovered within 12 months	19	-
	509	-
Net deferred tax asset	(73)	-

The gross movement on the deferred income tax account is as follows:

	2005	**2004**
Beginning of the year	-	-
Income statement charge/(credit) (Note 23)	(73)	-
End of the year	(73)	-

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

Deferred tax assets	Differences in carrying value of fixed assets for which impairment was recognised	Written-off bad debts	Accrued social insurance expenses on vacation reserve	Other	Total
At 31 December 2004	-	-	-	-	-
Credited to income statement	(335)	(195)	(45)	(7)	(582)
At 31 December 2005	(335)	(195)	(45)	(7)	(582)

Deferred tax liabilities	Differences in carrying value of revalued fixed assets	Total
At 31 December 2004	-	-
Charged to income statement	509	509
At 31 December 2005	509	509

(all tabular amounts are in LTL'000 unless otherwise stated)

10. Non-current receivables and deferred charges

	2005	2004
Non-current receivables	1,455	121,500
Deferred charges	30	-
	1,485	121,500

The fair values of non-current receivables and deferred charges approximate their carrying values.

As at 31 December 2005 non-current receivables include receivable from Hestika UAB for the building sold by the Company in 2005. Interest rate on the above amount receivable for the first two years is set at 4 per cent and for the remaining period at 6 per cent. This receivable is to be repaid by 30 December 2011. Non-current receivables as at 31 December 2004 includes loan provided to Minvista UAB.

11. Inventories

	2005	2004
Raw materials	16,108	15,925
Work in progress	456	424
Finished goods	1,758	2,400
Goods for resale	-	10
	18,322	18,759

At 31 December 2005 inventories of LTL 20,000 thousand (2004: nil) is provided as collateral for borrowings (Note 17).

The cost of inventories recognised as expense amounted to LTL 50 thousand (2004: LTL 1,113 thousand).

12. Trade, other receivables and prepayments

	2005	2004
Trade receivables	20,190	12,077
Less provision for impairment of receivables	-	-
Trade receivables – net	20,190	12,077
Receivables from related parties (Note 30)	6,583	4,458
Loans to related parties (Note 30)	36,232	200
Prepayments	936	1,050
Prepaid and recoverable taxes	19	44
Other receivables	18	15
	63,978	17,844

The fair values of trade, other receivables and prepayments approximate their carrying values.

Loans to related parties include a loan provided to Minvista UAB at the annual interest rate of 2.05 per cent.

(all tabular amounts are in LTL'000 unless otherwise stated)

13. Cash and cash equivalents

	2005	2004
Cash at bank	12,657	7,148
Cash in hand	17	16
Deposits	-	141
	12,674	7,305

Cash at bank and future inflows to bank accounts amounting to LTL 60,000 thousand (2004: nil) is provided as collateral for banks' borrowings (see Note 17).

14. Share capital

As at 31 December 2005, the Company's authorised share capital comprised 39,685,354 ordinary registered shares with a par value of LTL 1 per share (2004: 32,669,085 shares with a par value of LTL 4 per share). During 2005 the share capital was increased by LTL 28,065 thousand by shareholders contributions. Due to the Company's reorganisation in December 2005 share capital decreased by LTL 119,056 thousand. All Company's shares with 4 LTL nominal value each were exchanged to the same number of Biofuture AB and Stumbras AB shares with 3 LTL and 1 LTL nominal value each respectively. All issued shares are fully paid.

15. Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5 per cent of net profit for the reporting period calculated in accordance with the Lithuanian regulatory legislation on accounting are required until the reserve reaches 10 per cent of the authorised share capital. The legal reserve shall not be used for the payment of dividends and it may be used to cover future losses only. As at 31 December 2005 the legal reserve was nil (2004: LTL 11,864 thousand) as the whole reserve was transferred to Biofuture AB as a result of reorganisation.

16. Trade and other payables

	2005	2004
Trade payables	9,243	7,499
Amounts due to related parties	412	265
Advances received	218	102
Payroll related liabilities	1,764	1,948
Taxes payable (other than income tax)	16,675	15,248
Liabilities related to reorganisation	7,278	-
Contributions from shareholders related to share capital increase	-	28,060
Other current liabilities	36	28
	35,626	53,150

(all tabular amounts are in LTL'000 unless otherwise stated)

17. Borrowings

	2005	2004
Non-current		
Bank borrowings	21,923	-
	21,923	-
Current		
Bank borrowings	4,231	-
	4,231	-
Total borrowings	26,154	-

The whole amount of bank borrowings relate to a syndicated loan from two banks. This loan is to be repaid by 1 October 2007.

Bank borrowings are secured by the property, plant and equipment (Note 7), inventories (Note 11) and cash at banks including future inflows into accounts (Note 13).

The maturity of non-current borrowings is as follows:

	2005	2004
Between 1 and 2 years	21,923	-
Between 2 and 5 years	-	-
Over 5 years	-	-
	21,923	-

The actual interest rate at the balance sheet date was 3.76%.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2005	2004
EUR	26,154	-
	26,154	-

Bayerische Hypo-und Vereinsbank AG provided a guarantee to the Company for the amount of LTL 3,000 thousand maturing as at 15 June 2006. In addition, the Company issued a bill of exchange for the amount of LTL 3,000 thousand to the above bank, which is a collateral for the guarantee provided.

SEB Vilniaus Bankas AB provided a guarantee to the Company for the amount of LTL 1,000 thousand as at 31 December 2005, maturing on 31 December 2006. The maximum amount of guarantees that could be issued by the bank is LTL 5,000 thousand.

18. Deferred income

Deferred income is related to the government grants provided to the Company for the purchases of corn used in the production of bioethanol and starch.

19. Other income

	2005	2004
Interest income	2,975	1,902
Sold inventories	853	2,813
Profit on disposal of property, plant and equipment	358	1,287
Other	32	59
	4,218	6,061

(all tabular amounts are in LTL'000 unless otherwise stated)

20. Finance costs

Finance costs comprise interest expenses on bank borrowings.

21. Income tax expense

	2005	2004
Current tax	1,308	951
Adjustments related to previous periods	(5)	(22)
Deferred tax (Note 9)	(73)	-
	1,230	929

22. Discontinued operations

In December 2005 the Company split its operations and assets and liabilities into those related to production of strong alcohol drinks and production of non-denatured ethyl alcohol and bioetanol. Production of strong alcohol drinks remained at Stumbras AB. Production of non-denatured ethyl alcohol and bioetanol, considered as discontinued operations, together with all related assets and liabilities was transferred to a newly established company Biofuture AB.

An analysis of the result of discontinued operations is as follows:

	2005	2004
Revenue	19,715	7,647
Expenses	(21,135)	(16,443)
Loss before tax of discontinued operations	(1,420)	(8,796)
Tax	-	-
Loss after tax of discontinued operations	(1,420)	(8,796)

Non-current assets classified as held for sale:	2005	2004
– Property, plant and equipment	6,179	-
– Other intangible assets	52	-
	6,231	-

Non-current assets classified as held for sale includes mainly property, plant and equipment and intangible assets which are sold in January 2006 to Biofuture AB.

(all tabular amounts are in LTL'000 unless otherwise stated)

22. Discontinued operations (continued)

The assets and liabilities transferred to Biofuture AB are as follows:

	Carrying amounts
Property, plant and equipment	19,649
Intangible assets	38
Loans receivable from related parties	105,434
Cash and cash equivalents	7,278
Total assets	**132,399**
Share capital	119,056
Legal reserve	13,068
Retained earnings	275
Total equity and liabilities	**132,399**

23. Earnings per share

Basic
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	**2004**
Profit from continuing operations attributable to the equity holders	21,225	15,183
Loss from discontinued operations attributable to the equity holders	(1,420)	(8,796)
Net profit attributable to equity holders of the Company	19,805	6,387
Weighted average number of ordinary shares in issue (thousands)	39,198	30,830
Basic earnings per share (LTL per share)		
From continuing operations	0.54	0.49
From discontinued operations	(0.04)	(0.29)
Basic earnings per share	0.51	0.21

Diluted
The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share are the same as basic earnings per share.

24. Dividends per share

At the Annual General Shareholders' meeting on 18 March 2005, a dividend in respect of 2004 of LTL 0.42 per share equivalent amounting to a total dividend of LTL 13,890 thousand were declared.

Dividends relating to 2005 of LTL 0.45 per share and for the total amount of LTL 17,858 thousand are expected to be proposed at the Annual General Meeting. These financial statements do not reflect this dividend payable.

(all tabular amounts are in LTL'000 unless otherwise stated)

25. Cash generated from operations

	2005	2004
Net profit for the period	19,805	6,387
Adjustments for:		
– tax	1,230	929
– depreciation (Note 7)	5,307	5,285
– amortisation (Note 8)	100	127
– (profit) on disposal of PPE	(801)	(362)
– loss on disposal of shares	-	750
– interest income	(2,975)	(1,902)
– interest expense	942	-
Changes in working capital:		
– non-current receivables and deferred charges	(1,485)	-
– inventories and assets held for sale	(1,532)	1,409
– trade and other receivables and prepayments	(9,232)	(15,231)
– trade and other payables, deferred income and provisions	4,766	3,641
Cash generated from operations	16,125	1,033

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount (Note 7 and Note 8)	28,430	5,000
Profit on disposal of non-current assets	801	362
Transfer of non-current assets on reorganisation	(19,687)	-
Proceeds from sale of non-current assets	9,544	5,362

Non-cash transactions
The principal non cash transactions in 2005 were transfer of the assets to newly established company Biofuture AB and issue of the share capital as shareholders contributions were mainly received in 2004.

26. Contingencies

Claim from Palink UAB

In 2005 the Company received a claim from Palink UAB in the total amount of LTL 1,339 thousand for the compensation of indirect damage incurred due to Company's violation of regulations on competitive operations. The outcome of this dispute as at the date of these financial statements was uncertain. However, the Company's management believes that the Company will not incur any expenses relating to this dispute.

Litigation with Anykščių Vynas AB

In 2005 the Company submitted the claim against Anykščių Vynas AB for using the product brand name similar to patented Company's brand names. According to this claim Anykščių vynas AB was forced to stop using these brand names and related products were taken into the custody. Anykščių Vynas AB also took legal action to claim for compensation of losses relating to suspended distribution of above products in the amount of LTL 4,000 thousand. The outcome of this dispute as at the date of these financial statements was uncertain. However, the Company's management believes that the Company will not incur any expenses relating to this dispute.

(all tabular amounts are in LTL'000 unless otherwise stated)

26. Contingencies (continued)

Tax audits

The tax authorities have carried out a full-scope tax audit at the Company until September 2003. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

27. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2005	**2004**
Property, plant and equipment	616	817

(b) Operating lease commitments – where the Company is the lessee

The Company leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	**2004**
No later than 1 year	379	267
Later than 1 year and no later than 5 years	731	666
Later than 5 years	-	-
	1,110	933

28. Related-party transactions

Mineraliniai Vandenys AB is the majority shareholder of the Company owning 99.4 per cent of the Company's shares. The remaining shares are widely held.

Other companies treated as related parties are subsidiaries of Koncernas MG Baltic UAB.

Services are usually negotiated with related parties on a cost-plus basis. Goods are sold on the basis of the price list in force with non-related parties.

AB “STUMBRAS”
Performance report for 2005

7 March 2006

The report on the Company’s operation is drawn in compliance with Article 36 of the Companies Law of the Republic of Lithuania. The Company’s articles of association do not provide for other requirements to the Report on the Company’s Operation.

Report on the Company’s operation was approved in AB “Stumbras” Board Meeting of 7 March 2006.

I. Overview of the Company’s operation during the reporting year

The key operations of the Company in 2005 were production and trade in alcoholic beverages.

In 2005 the Company’s sales of goods (net of excise duties) and services amounted to LTL 99,854,065, from this amount LTL 17,084,207 relates to discontinued operations.

The Company’s profit before taxes in fiscal year 2005 amounted to LTL 21,034,822 Lt, from this amount loss of LTL 1,420,052 relates to discontinued operations.

During fiscal year 2005 the Company accounted for the following taxes that were paid or will be paid to the State Revenue within the terms laid down in legal acts: LTL 155,975,897 of total taxes, of these - LTL 120,061,139 of excise duties, LTL 27,801,662 of value added tax, LTL 3,248,444 of social insurance contributions, LTL 2.822.142 of personal income tax.

Key indicators of financial economic activities during the fiscal year 2005:

	Y 2005	Y 2004
Sales and services (including discontinued operations)	LTL 99.9 million	LTL 83.8 million
Export within the scope of sales	17.2 %	4,9 %
Net profit (including discontinued operations)	LTL 19.8 million	LTL 6.4 million
Profitability of sales and services	19.8 %	7.6 %
Fixed assets at the end of the year	LTL 25.5 million	LTL 170.1 million
Current assets at the end of the year	LTL 101.7 million	LTL 45.4 million
Total assets	LTL 127.3 million	LTL 215.5 million
Equity	LTL 39.7 million	LTL 130.7 million
Capital and reserves	LTL 63.3 million	LTL 161.8 million

The Company has exported and sold products outside the Republic of Lithuania for LTL 17.2 million, from this amount LTL 4.5 million relates to continuing operations and LTL 12.7 million to discontinued operations.

Changes in the Company’s management bodies:

SUPERVISORY BOARD	
No changes took place since 21-11-2003	**Romanas Raulynaitis** – Supervisory Council Chairman (lawyer); **Inga Žemkauskienė –** Supervisory Council member **(**lawyer); **Dalius Balceris –** Supervisory Council member **(**lawyer).
BOARD OF DIRECTORS	
Since 29-12-2005	**Darius Juozas Mockus** - Chairman of the Board, president of UAB Concern “MG Baltic”; **Artūras Listavičius**, UAB Concern “MG Baltic Trade” Bioethanol Project Manager, **Rolandas Vingilis**, UAB “Troja” Director, **Vidas Lazickas**, UAB Concern “MG Baltic” Director of Finance and Economy, **Aurelijus Racevičius**, UAB Concern “MG Baltic” Managing Director, **Darius Žakaitis,** UAB “MG Baltic Trade” Director of Development
CEO OF THE COMPANY	
Since 01-09-2004	**Česlovas Matulevičius**

II. Names of the Company's affiliates, number of shares held in the affiliate companies, total par value of those shares, proportion of share capital owned in affiliate companies and the benefit derived by the company from holding a majority of the votes or exercising a dominant influence in the said companies.

In 2005 the Company did not establish affiliates and did not acquire in any other manner shares of other companies, did not take part in the management and operation of other legal persons and could not derive any benefit from holding a majority of the votes or exercising a dominant influence in other companies or other legal persons.

III. The number of own shares purchased or transferred by the company in the course of the reporting fiscal year, their aggregate nominal value and the share thereof in the statutory capital of the company as well as the substantiation of the these acquisitions or transfers

In 2005 the Company did not hold any own shares purchased or transferred.

IV. Information about the branches and representative offices of the company

In 2005 the Company did not establish or register any branches or representative offices on the territory of Lithuania or other countries.

V. Major events in the company in the course of the current fiscal year before the Annual General Meeting.

On 16 December 2005 reorganization of the Company was finished.

The Company was reorganized in the manner provided for in Article 71 of the Law on Companies of the Republic of Lithuania by splitting the Company and establishing a new company AB "Biofuture" on the basis of assets, rights and obligations allocated to the said company.

The purpose of the reorganization was to separate part of operations that AB "Stumbras" was involved in by leaving key activities, namely production of alcoholic beverages, to be continued by AB "Stumbras" and setting up a new company AB "Biofuture" to produce non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol. The said separation of activities also aimed at optimising the management of production processes, reducing management costs and gaining higher economic benefit. After the reorganization AB "Stumbras" is involved only in the production and wholesale trade of alcoholic beverages, these operations being the key business of the Company. After the reorganization AB "Biofuture" is involved only in the production of non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol as provided for by the current legislation. The aforementioned reorganization enabled to separate functions not typical to the producer of alcoholic beverages and the functions related with the processing of raw materials for bioethanol and also to change the structure of AB "Stumbras" corporate governance. The expected result of such separation is more efficient allocation of marketing and production resources and lower production and sales costs. After the reorganization AB "Biofuture" will have access to EU structural funds and funding from programs supporting bioethanol producers; the company will also take advantage of subsidies given for the buying up of raw materials (grains) for the production of bioethanol.

VI. Plans and forecasts of the Company's operation

In 2006 the Board will aim at increasing AB "Stumbras" production sales volumes on the local market, including sales on the territory of EU countries and to raise volumes of export to third countries.

The expected production sales in 2006 are LTL 99.1 million.

General Director Česlovas Matulevičius