AB Vilniaus Baldai

Annual Accounts for the year 2004

Contents

Company details

AB Vilniaus Baldai

Telephone	+ 370 5 2525 700
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Registered office:	Savanorių pr. 178, Vilnius, LT-03154 Lithuania

Board of Directors

Alvydas Banys (Chairman)
Algirdas Bučas
Dailius Juozapas Mišeikis

Management

Viktoras Majauskas (Managing director)
Vytautas Radžius (Technical director)
Algirdas Zavistanavičius (Personnel director)
Eligijus Strigauskas (Production director)
Virginija Norkienė (Marketing director)
Vygantas Didžiulis (Chief finance officer)

Auditors

KPMG Lietuva

Bankers

Sampo Bank
Vilnius Bank

Financial highlights

LTL'000	2004	2003

Key figures

Turnover	**100,472**	**88,509**
Gross profit	19,736	16,283
Operating profit	10,088	8,833
Profit before taxation	9,840	8,529
Profit for the year	**8,054**	**7,235**

Non-current assets	59,544	41,342
Current assets	20,328	15,524
Total assets	**79,872**	**56,866**
Share capital	15,545	15,545
Capital and reserves	**35,853**	**32,181**
Non-current liabilities	18,851	12,951
Current liabilities	25,168	11,734

Net cash flow from operating activities	22,496	6,757
Net cash flow from investing activities	-25,742	-7,860
Net cash flow from financing activities	3,402	177
Total cash flow	156	-926

Average number of employees	916	863

Financial ratios

Net profit ratio	8.0%	8.2%
Return on investment	12.6%	15.5%
Gross margin	19.3%	18.4%
Current ratio	80.8%	132.3%
Equity ratio	44.9%	56.6%
Return on equity	**23.7%**	**24.1%**

Financial highlights

Calculation of financial ratios

Net profit ratio
$$\frac{\text{Net profit/loss x 100}}{\text{Turnover}}$$

Return on investment
$$\frac{\text{Profit/loss on operating activities before interest etc. x 100}}{\text{Total assets}}$$

Gross margin
$$\frac{\text{Gross profit x 100}}{\text{Turnover}}$$

Current ratio
$$\frac{\text{Current assets x 100}}{\text{Short-term creditors}}$$

Equity ratio
$$\frac{\text{Capital and reserves at year end x 100}}{\text{Total liabilities at year end}}$$

Return on equity
$$\frac{\text{Profit for purposes of analysis x 100}}{\text{Average capital and reserves}}$$

Profit for purposes of analysis — Profit/loss on ordinary activities after tax

Annual report

The Board of Directors and the Management have today discussed and adopted the annual accounts and the annual report.

The accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the annual accounts thus give a true and fair view.

We recommend the accounts to be approved at the Annual General Meeting.

Vilnius, 8 April 2005

Management:

Viktoras Majauskas
Managing director

Board of Directors:

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Alvydas Banys (Chairman)	Algirdas Bučas

Dailius Juozapas Mišeikis

Report of the auditor to the shareholders of AB Vilniaus Baldai

Scope

We have audited the accompanying balance sheet of AB Vilniaus Baldai as at 31 December 2004 and the related statements of income, movements on equity and cash flows for the year then ended.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of the opinion

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB Vilniaus Baldai as at 31 December 2004, and of the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

Vilnius, 8 April 2005
KPMG Lietuva

Leif Rene Hansen
Danish State Authorised
Public Accountant

Domantas Dabulis
Certified Auditor

390.952.IV/NK

Profit and loss account

	Note	2004	2003
		Litas'000	Litas'000
Turnover	2	100,472	88,509
Production costs		-81,096	-72,226
Gross profit		19,376	16,283
Distribution expenses	3	-1,957	-1,507
Administrative expenses	4	-7,580	-6,194
Other operating income, net	5	249	251
Operating profit		10,088	8,833
Financial costs, net	6	-248	-304
Profit before tax		9,840	8,529
Profit tax	7	-1,786	-1,294
Net profit for the year		8,054	7,235
Earnings per share	8	2.07	1.86

Balance sheet

	Note	31/12/2004	31/12/2003
		Litas'000	Litas'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	58,538	40,641
Intangible assets		254	200
Investments	10	752	501
Total non-current assets		59,544	41,342
Current assets			
Inventories	11	11,433	9,577
Trade receivables		5,598	3,540
Other receivables	12	3,039	2,305
Cash and cash equivalents	13	258	102
Total current assets		20,328	15,524
TOTAL ASSETS		79,872	56,866

Balance sheet

	Note	31/12/2004	31/12/2003
		Litas'000	Litas'000
EQUITY AND LIABILITIES			
Capital and reserves	14		
Share capital		15,545	15,545
Revaluation reserve		8,987	9,482
Legal reserve		637	326
Retained earnings		10,684	6,828
Total capital and reserves		35,853	32,181
Non-current liabilities			
Deferred tax liability	15	2,261	2,348
Interest bearing loans and borrowings	16	16,590	10,603
Total non-current liabilities		18,851	12,951
Current liabilities			
Interest bearing loans and borrowings	16	1,700	-
Trade creditors		20,114	8,292
Other creditors	17	3,354	3,442
Total current liabilities		25,168	11,734
Total liabilities		44,019	24,685
TOTAL EQUITY AND LIABILITIES		79,872	56,866
Contingencies	18		
Staff costs	19		
Related party transactions	20		
Financial instruments	21		

Statement of changes in shareholders' equity

LTL'000	Share capital	Legal reserve	Revaluation reserve	Retained earnings	Total
Capital and reserves at 31 December 2002	15,545	234	11,379	627	27,785
Dividend				-1,166	-1,166
Change in accounting principle			-1,673		-1,673
Transfer from revaluation reserve			-224	224	0
Transfer to legal reserve		92		-92	0
Net profit for 2003				7,235	7,235
Capital and reserves at 31 December 2003	15,545	326	9,482	6,828	32,181
Reverse of revaluation reserve			-495		-495
Dividend				-3,887	-3,887
Transfer to legal reserve		311		-311	0
Net profit for 2004				8,054	8,054
Capital and reserves at 31 December 2004	15,545	637	8,987	10,684	35,853

Cash flow statement

Litas'000	2004	2003
Result after tax	8,054	7,235
Adjustments for:		
Depreciation and amortisation	5,142	4,260
Property, plant and equipment sold, written off, etc.	867	77
Deferred taxation	0	-361
Provision for obsolete inventories	-47	-75
Provision for doubtful receivables	-8	0
Accrual for current taxation	1,786	1,655
Vacation reserve	-221	170
Financial income and expenses	248	304
Net cash inflow from ordinary activities before any change in working capital	15,821	13,265
Change in trade and other receivables	-1,725	-2,378
Change in inventories	-1,809	-267
Change in trade creditors and other creditors	10,607	-3,572
Net cash inflow from ordinary activities	22,894	7,048
Profit tax paid	-398	-291
Net cash inflow from operating activities	22,496	6,757
Acquisition of property, plant and equipment	-24,272	-7,424
Acquisition / sale of investments	-1,751	-498
Capitalisation of intangible fixed assets	-193	-160
Disposal of property, plant and equipment	441	222
Dividends, interest received	33	0
Net cash outflow from investing activities	-25,742	-7,860
Dividend paid	-3,886	-1,129
Loans received	7,687	1,780
Interest paid	-399	-474
Net cash inflow/(outflow) from financing, net	3,402	177
Net cash inflow/outflow from operating activities, investing activities and financing	156	-926
Cash and cash equivalents at 1 January	102	1,028
Cash and cash equivalents at 31 December	258	102

Notes to the annual accounts

1 Summary of significant accounting policies and practises

The joint stock company AB Vilniaus Baldai (the Company) is a publicly listed company domiciled in Lithuania.

The Company is involved in the manufacture of furniture. As at 31 December 2004, the Company employed 981 employees (2003: 863 employees).

The Company's shares were traded on the Official List of the National Stock Exchange of Lithuania (NSEL).

Statement of compliance

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

Basis of preparation

The financial statements are presented in thousand Litas. They are prepared on the historical cost basis.

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates.

The accounting policies of the Company as set out below are consistent with those of the preceding year.

Foreign currency

Transactions in foreign currencies are translated to Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Notes to the annual accounts

Balance sheet

Property, plant and equipment

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

The buildings are stated at revaluated value less accumulated depreciation and impairment losses. The revaluation of buildings are performed periodically over 5 years.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

- buildings 40 years
- plant, machinery and equipment 6 - 10 years
- motor vehicles 5 - 10 years
- other assets 2 - 6 years

Intangible fixed assets

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

Trade and other receivables

Trade and other receivables are stated at their cost less provision for possible losses.

Inventories

Raw materials are stated at the lower of cost or net realisable value, less provision for slow moving and obsolete inventories.

Notes to the annual accounts

Work in progress is stated at cost comprising purchase price of raw materials and consumables, direct labour and an appropriate share of production overheads.

Finished goods are stated at standard selling prices adjusted for their average expected contribution margin.

Cost is determined by the first-in, first-out (FiFo) method.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and call deposits.

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to the 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.

Dividends

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the annual accounts

Profit and loss account

Revenue

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement where delivery has been effected by the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Production costs

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs of imported products include the purchase price and transportation costs corresponding to the turnover of the year.

Tax on result for the period

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Segment reporting

A segment is a distinguishable component of the Company that is engaged in either providing products or services (business segment), or providing products or services within a

Notes to the annual accounts

particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Cash flow statement

The cash flow statement shows the company's inflows and outflows of cash during the period as well as the financial position at the end of the year. The cash flow is related to three major areas: operating activities, investing activities and financing.

The cash flow statement is drawn up in such a manner that net cash inflow/(outflow) from operating activities is presented indirectly based on operating income and charges in the profit and loss account.

Cash and cash equivalents include cash at bank and in hand and short-term securities stated under current assets.

Net cash inflow/(outflow) from operating activities is calculated as the result of ordinary activities adjusted for non-cash operating items with the addition of an increase in, or reduction of, the working capital, net interest receivable or payable and extraordinary items and less corporation tax paid.

Working capital comprises current assets, excluding items included in cash and cash equivalents and short-term creditors, excluding bank loans, mortgage debt, taxation and dividends. Therefore, cash at bank and in hand and any securities stated under current assets are not included.

Net cash outflow/(inflow) from investing activities comprises acquisitions and disposals of fixed assets.

Additions are stated at cost. Disposals are stated at a sales price less related expenses.

Net cash inflow/(outflow) from financing comprises payments to and from shareholders as well as receipts from and repayment of mortgage debt and other long-term and short-term creditors not included under the working capital.

Notes to the annual accounts

2 Segment reporting

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

Revenues and total assets by geographical segments are as follows:

	Sales		Total assets	
Litas'000	2004	2003	2004	2003
Lithuania	3,958	3,591	79,872	56,866
Other European countries	96,514	84,918	0	0
	100,472	88,509	79,872	56,866

	2004	2003
	Litas '000	Litas '000
3 Distribution expenses		
Salaries and social insurance	970	803
Exporting costs (transportation)	232	158
Advertising	214	178
Depreciation	148	149
Business trips	91	38
Other	302	181
	1,957	1,507

Notes to the annual accounts

		2004	2003
		Litas '000	Litas '000
4	**Administrative expenses**		
	Salaries and social insurance	2,456	2,152
	Repairs and maintenance costs	1,384	191
	Operational taxes	832	741
	Depreciation	562	554
	Professional services	371	310
	Utilities and communications	276	255
	Tantiemes	180	90
	Amortisation	140	106
	Business trips	115	56
	Insurance	85	47
	Training and other costs of employment	52	44
	Bank services	46	35
	Other	1,081	1,613
		7,580	6,194

		2004	2003
5	**Other operating income, net**		
	Rental income	181	178
	Sale of waste	42	254
	Doubtful receivables written off	-37	-4
	Other gains and losses	63	-177
		249	251

		2004	2003
6	**Financial costs, net**		
	Interest expense on bank borrowings	-399	-474
	Amortisation of deferred income	95	187
	Foreign exchange transaction gain, net of loss	-7	-6
	Other gains and losses	63	-11
		-248	-304

Notes to the annual accounts

		2004	2003
		Litas '000	Litas '000
7	**Profit tax**		
	Current tax	1,786	1,655
	Profit tax corrections of the previous periods	87	-150
	Change in deferred taxation	-87	-211
	Tax for the period	1,786	1,294

The reconciliation of effective tax rate is as follows:

Result before tax	9,840	8,529
Permanent differences:		
Non-deductible expenses	472	1,121
Temporary differences:		
Change in provisions and accruals	1,594	1,386
Taxable profit	11,906	11,036
Profit tax at rate of 15%	1,786	1,655

The movement on deferred tax liability account is as follows:

Litas '000	2004	2003
1 January	2,348	886
Change in deferred tax liability	-87	1,462
Deferred tax at 31 December	2,261	2,348

8 Earnings per shares

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Litas '000	2004	2003
Net profit for the year	8,054	7,235
Weighted average number of shares in issue (thousand)	3,886	3,886
Basic earnings per share (in Litas)	2.07	1.86

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

Notes to the annual accounts

9 Property, plant and equipment

Litas'000	Buildings	Machinery and equipment	Motor Vehicles	Other non-current assets	Construc-tion in progress	Total
Cost at 1 January	25,585	30,108	880	2,149	49	58,771
Additions	6,169	10,783	323	441	6,556	24,272
Disposals	-650	-310	-13	-107	0	-1,080
Write-off	-624	0	0		0	-624
Reclassifications	197	5,605	0	38	-5,840	0
Cost at 31 December	30,677	46,186	1,190	2,521	765	81,339
Depreciation at 1 January	6,707	10,503	257	943	0	18,410
Depreciation for the year	691	3,967	103	381	0	5,142
Disposals	-327	-303	-9	-70	0	-709
Write-offs	-42	0	0	0	0	-42
Reclassifications	0	0	0	0	0	0
Depreciation at 31 December	7,029	14,167	351	1,254	0	22,801
Net book value at 31 December	23,648	32,019	839	1,267	765	58,538
Net book value at 1 January	18,878	19,605	623	1,206	49	40,361
Depreciated over	40 years	6-10 years	5 - 10 years	2 - 6 years		

Depreciation has been allocated as follows:

Litas'000	2004	2003
Production and production development costs	4,432	3,451
Selling, administrative and other costs	710	703
Total	5,142	4,154

Notes to the annual accounts

Security

At 31 December 2004, property, plant and equipment with a carrying amount of Litas 40,866 thousand (2003: Litas 17,990 thousand) are pledged to secure bank loans.

Revaluations

In 1998 and 1999, the independent valuators from UAB Matininkai made a valuation of all the Company's buildings in order to estimate their market value. Based on this evaluation, the Company recorded an increase in the value of the buildings of Litas 11,319 thousand, and the related revaluation reserve was created under the equity.

		2004	2003
		Litas '000	Litas '000
10	**Investments**		
	Long-term part of loan to UAB Giriu Bizonas	750	0
	Bonds of AB FMI Finasta	0	498
	Other	2	3
	Net book value at 31 December	752	501

For details on loan to UAB Giriu Bizonas reference is made to Note 12.

		2004	2003
		Litas '000	Litas '000
11	**Inventories**		
	Raw materials	7,006	4,517
	Work in progress	2,002	1,807
	Finished goods	2,286	3,160
	Goods for resale	139	93
	Net book value at 31 December	11,433	9,577

Raw materials consist of wood, accessories, plastics, chemical materials and other materials used in production.

Notes to the annual accounts

		2004	2003
		Litas '000	Litas '000
12	**Other receivables**		
	Receivables from the State (refund of VAT)	1,248	2,094
	Loan to supplier	1,500	0
	Other receivables and deferred charges	291	211
	Net book value at 31 December	3,039	2,305

On 4 May 2004, the Company issued an interest-free loan of Litas 3,000 thousand to one of the major suppliers UAB Giriu Bizonas. The loan matures on 5 July 2006. The loan is paid back in monthly instalments of Litas 125 thousand starting 1 July 2004. The balance of the loan as at 31 December 2004 was equal to Litas 2,250 thousand, Litas 750 thousand of which is classified as a long-term receivable.

		2004	2003
		Litas '000	Litas '000
13	**Cash and cash equivalents**		
	Cash at bank	248	87
	Cash in hand	8	9
	Cash in transit	2	6
	Cash and cash equivalents at the end of the year	258	102

At 31 December 2004, cash at bank and future inflow into the banks are pledged to secure bank loans (refer Note 18).

14 Capital and reserves

Share capital

The share capital comprises 3,886,267 ordinary shares with a nominal value of Litas 4 each and the total share capital of Litas 15,545,068.

Legal reserve

Legal reserve of Litas 637 thousand is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net profit, if available for distribution, are required until the legal reserve reaches 10% of the authorised capital.

Notes to the annual accounts

15 Deferred tax liability

Litas'000	2004 Temporary diff.	2004 Deferred tax (15%)	2003 Temporary diff.	2003 Deferred tax (15%)
Depreciation	-36	-5	-973	-146
Receivables provision	-47	-7	0	0
Accrued costs	-742	-111	-687	-103
Other	-60	-9	-133	-20
Revaluation of non-current assets	9,798	1,469	11,153	1,673
Investments	6,160	924	6,293	944
Net book value at 31 December	15,073	2,261	15,653	2,348

16 Interest bearing loans and borrowings

	2004 Litas '000	2003 Litas '000
Non-current liabilities		
Long-term, secured financing facility	16,590	10,603
Net book value at 31 December	16,590	10,603
Current liabilities		
Current portion of secured loans	1,700	0
Net book value at 31 December	1,700	0

Terms and repayment schedule

On 25 February 2003, the Company signed a credit line contract with Sampo Bankas for refinancing of liabilities to AB Vilniaus Bankas, financing of working capital and obtaining tender guarantees. The maximum amount of the credit line is Litas 6,474 thousand, the maturity date is 25 February 2006. The annual interest on the credit is equal to 6 months VILIBOR + 1.3%.

On 3 September 2004, the Company extended a credit agreement with AB Sampo Bankas, according to which a loan of EUR 2,540 thousand was provided for refinancing of liabilities to UAB Vilniaus Banko Lizingas, refinancing of the outstanding loan liability to AB Sampo Bankas and investments into production machinery. Maturity date is 25 February 2010. The annual interest on the credit is equal to 6 months EURIBOR + 1.3%.

Notes to the annual accounts

On 28 December 2004, the Company has signed a credit agreement with AB Sampo Bankas. According to this agreement, the Company was granted a credit limit of EUR 4,650 thousand for financing of investments into production buildings and machinery. Maturity date is 28 December 2011, the annual interest on the credit is equal to 6 months EURIBOR + 1.5%. As at 31 December 2004, the amount withdrawn according to this credit agreement amounted to EUR 900 thousand.

Financial liabilities are payable as follows:

Litas '000	Total payable	In 2005	In 2006-2007	In 2008-2010
Loan of EUR 900 thousand	3,107	0	1,784	1,323
Loan of EUR 2,540 thousand	8,770	1,700	1,700	5,370
Used credit facility of Litas 6,413 thousand	6,413	0	6,413	0
Total	18,290	1,700	9,897	6,693

As a security for the pay-back of the loans, the Company pledged its buildings and machinery for the total book value of Litas 40,866 thousand as at 31 December 2004, as well as current and future cash inflows into the Company's bank accounts with AB Sampo Bankas.

	2004	2003
	Litas '000	Litas '000
17 Other creditors		
Profit tax liability	1,199	1,597
Vacation reserve	631	852
Social insurance payable	391	321
Operational taxes payable	106	95
Advances	44	63
Dividend payable for the previous year	37	0
Other payables and accrued charges	946	514
Net book value at 31 December	3,354	3,442

18 Contingencies

The Company has pledged its fixed assets with a book value of Litas 40,866 thousand as at 31 December 2004 (2003: Litas 17,990 thousand) to secure the bank loans.

As at 31 December 2004, cash at bank and future inflow into the bank are pledged to secure the bank loans.

Notes without reference

		2004	2003
		Litas '000	Litas '000
19	**Staff costs**		
	Production and product development costs	14,686	12,768
	Selling, administrative and other expenses	3,426	2,955
		18,112	15,723

Staff costs include wages and salaries and emoluments for the management of Litas 869 thousand (2003: Litas 759 thousand).

The Company had 981 employees at the end of 2004 (2003: 863 employees).

20 Related party transactions

On 6 November 2003, the Company purchased 5,000 bonds issued by the related company AB FMI Finasta (the same ultimate controlling shareholder). The nominal value for a bond is 100 Litas, the total amount paid by the Company for the bonds is Litas 498 thousand. The annual interest rate for the bonds was 5%, the maturity term is 5 December 2005. However, the bonds were not kept until maturity but sold on 24 December 2004 also to the related party UAB Finansu Spektras (the subsidiary of AB FMI Finasta) for the amount of Litas 502 thousand (including coupon interest).

On 24 November 2004, the Company purchased real estate for Litas 6,461 thousand from the related company AB Vilmakas (the same ultimate controlling shareholder). The real estate includes production buildings, wood processing workshops, warehouses etc.

21 Financial instruments

Credit risk

The sales to IKEA Trading, the main customer of the Company, made up approximately 82% in year 2004 (91% in 2003).

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Notes without reference

Foreign exchange risk

The Company incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than EUR. The currency giving rise to this risk is primarily US Dollars.

Accounts receivable and payable in foreign currencies as at 31 December 2004 could be specified as follows:

LTL'000	Euro	USD	SEK	Other
Trade debtors	2,107	209		0
Cash	233	2		0
Borrowings	-11,878	0		0
Trade creditors	-2,829	-310	-897	0
	-12,367	-99	-897	0

Interest rate risk

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

As at 31 December 2004, the Company did not use any financial instruments to hedge its interest rate risks.