

JSC „GRIGIŠKĒS“ FINANCIAL STATEMENT FOR FIRST QUARTER OF THE YEAR 2006

	PAGE
FINANCIAL STATEMENT:	
BALANCE SHEET	3
INCOME STATEMENT	4
CASH FLOWS STATEMENT	5
STATEMENT OF CHANGES IN EQUITY	6
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS	7

JSC „GRIGIŠKĖS“

BALANCE SHEET AT 31 MARCH 2006

	<u>The Group</u>	<u>The Company</u>	
	<u>31 03 2006</u>	<u>31 03 2006</u>	<u>2005</u>
	<u>LTL</u>	<u>LTL</u>	<u>LTL</u>
ASSETS			
Non-current assets:			
Property, plant and equipment	82.418.694	70.965.567	64.304.306
Intangible assets	6.450.502	4.114.793	5.041.927
Investments in associates			
Investments in subsidiary		5.005.000	5.005.000
Loans granted	9.677	9.677	9.677
Other receivables			
Total non current assets	88.878.873	80.095.037	74.360.910
Current assets:			
Cash and cash equivalents	1.027.444	943.988	141.254
Loans granted	82.111	82.111	129.635
Trade and other receivables	18.620.848	17.759.449	15.496.590
Inventories	11.812.093	9.232.007	8.747.828
repayments and deferred charges	384.060	360.503	303.353
Total current assets	31.926.556	28.378.058	24.818.660
TOTAL ASSETS	120.805.429	108.473.095	99.179.570
LIABILITIES AND EQUITY			
Capital and reserves:			
Share capital	39.956.657	39.956.657	39.956.657
Legal reserve	3.693.300	3.693.300	3.693.300
Retained earnings	22.193.610	20.506.502	18.982.309
Revaluation reserve for not used emission rights	798.307	798.307	798.307
Total equity	66.641.874	64.954.766	63.430.573
Government grants	524.937	524.937	524.937
Non-current liabilities:			
Bank loans	12.067.899	8.338.512	3.992.038
Obligations under finance leases	7.446.064	6.806.918	6.567.457
Deferred tax liability	1.003.358	651.825	669.672
Other payables	3.676	3.676	
Total non-current liabilities	20.520.997	15.800.931	11.229.167
Current liabilities:			
Bank loans	7.306.988	4.141.530	1.450.176
Obligations under finance leases	2.539.694	2.370.407	3.295.254
Provisions for used emission rights	3.522.006	3.522.006	3.522.006
Factoring	870.542		
Trade and other payables	18.878.391	17.158.518	15.727.456
Total current liabilities	33.117.621	27.192.461	23.994.892
TOTAL LIABILITIES AND EQUITY	120.805.429	108.473.095	99.179.569

Nina Šilerienė
Finansų direktorė

JSC „GRIGIŠKĖS”
INCOME STATEMENT
AT 31 MARCH 2006

	The Group	The Company	
	31 03 2006	31 03 2006	2005
	LTL	LTL	LTL
Sales	29.978.232	27.496.338	24.586.246
Cost of sales	23.558.187	21.472.562	18.425.069
Gross profit	6.420.045	6.023.776	6.161.177
Other operating income	393.192	393.192	247.896
Release of negative goodwill to income			
Selling and distribution expenses	2.101.737	1.931.376	2.032.894
Administrative expenses	2.662.758	2.420.979	2.043.291
Other operating expenses	17.910	17.910	63.263
Profit from operations	2.030.832	2.046.703	2.269.625
Share of loss in associates			
Interest income	200	200	386
Interest expense	244.332	169.494	139.528
Net foreign exchange gain (loss)	-18282	-17731	8539
Other finance income			
Other finance expenses	1.395	31,00	
Profit before income tax	1.767.023	1.859.647	2.139.022
Income tax (expense)	334.454	335.454	349.800
NET PROFIT	1.432.569	1.524.193	1.789.222

Nina Šilerienė
Finansų direktorė

JSC „GRIGIŠKĖS”
CASH FLOWS STATEMENTS
AT 31 MARCH 2006

	The Group 2006 LTL	The Company 2006 LTL	The Company 2005 LTL
OPERATING ACTIVITIES			
Profit before income tax	1.767.023	1.859.647	11.049.707
Adjustments for:			
Depreciation and amortization	2.390.557	2.072.139	6.283.841
Release of negative goodwill to income		-	-
Share of loss of associates		-	-
Interest income	-200	-200	-507.004
Interest expense	244.332	169.494	566.535
Net foreign exchange (gain) loss	18.282	17.731	-43.070
(Profit) on disposal of fixed assets	-241.849	-241.849	-91.985
Provisions for slow moving inventory, write off to net realisable value	4.075	4.075	75.218
write off to net realisable low value inventory			
Fixed assets impairment losses (reversal)		-	-31.464
Goodwill impairment losses		-	-
Investments in subsidiary impairment losses		-	35.072
Provision for doubtful accounts receivable (reversal), write off of bad accounts receivables	4.182.220	3.881.037	-959.214 16.377.636
Changes in operating assets and liabilities:			
Decrease/(increase) in prepayments and deferred charges	-52.889	-57.150	51.520
Decrease in trade and other receivables	-2.866.858	-2.262.859	713.784
(Increase) in inventories	-635.905	-484.179	-198.013
Increase/(decrease) in trade and other payables	1.703.630	1.427.275	3.682.499
Cash generated by/(used in) operations	-1.852.022	-1.376.913	4.249.790
Interest paid	-244.332	-169.494	-566.535
Income taxes paid	-367.244	-367.244	-1.668.359
Net cash from operating activities	1.718.622	1.967.386	18.392.532
INVESTING ACTIVITIES			
Purchase of fixed tangible and intangible assets, net	-7.840.922	-7.262.660	-14.199.621
Interest received	-200	-200	507.004
Acquisition of subsidiary	-	-	-1.905.000
Acquisition of investment in an associate	-	-	-
Loans granted	-	-	-
Repayment of loans granted	47.524	47.524	164.534
Proceeds from long-term receivables	-	-	2.460.246
Net cash (used in) investing activities	-7.793.598	-7.215.336	-12.972.837
FINANCING ACTIVITIES			
Dividends paid	-	-	-2.000.000
Repayments of borrowings	-138.646	-	-2.216.925
Proceeds from borrowings	7.684.745	7.037.828	3.266.950
Repayment of long-term payables	-	-	-2.460.246
Repayments of finance lease liabilities	-1.111.236	-987.144	-3.328.042
Net cash (used in) financing activities	6.434.863	6.050.684	-6.738.263
Net (decrease)/increase in cash	359.887	802.734	-1.318.568
CASH, BEGINNING OF THE YEAR	667.557	141.254	1.459.822
CASH, END OF THE YEAR	1.027.444	943.988	141.254

Nina Šilerienė
Finansų direktorė

JSC „GRIGIŠKĖS”

STATEMENT OF CHANGES IN EQUITY AT 31 MARCH 2006

The Group	Share capital	Legal reserve	Revaluation reserve for not used emission rights	Other reserves	Retained earnings	Total
	LTL	LTL	LTL	LTL	LTL	LTL
AT 31 December 2003	39.956.657	2.725.000		470.679	5.993.663	49.145.999
Effect of first-time adoption of IFRS					-704.423	-704.423
AT 31 December 2003 (as restated)	39.956.657	2.725.000	0	470.679	5.289.240	48.441.576
Other reserves used				-470.679	470.679	0
Transfer to legal reserve		681.400			-681.400	0
Net profit					5.805.445	5.805.445
At 31 December 2004 (as restated)	39.956.657	3.406.400	0	0	10.883.964	54.247.021
Effect of changes in accounting policy					2.135.276	2.135.276
At 31 December 2004 (as restated)	39.956.657	3.406.400	0	0	13.019.240	56.382.297
Transfer to legal reserve		286.900			-286.900	0
Dividends paid					-2.000.000	-2.000.000
Not used emission rights revaluation impact			798.307			798.307
Net profit					10.028.701	10.028.701
At 31 December 2005	39.956.657	3.693.300	798.307	0	20.761.041	65.209.305
Net profit					1.432.569	1.432.569
At 31 March 2006	39.956.657	3.693.300	798.307	0	22.193.610	66.641.874

The Group	Share capital	Legal reserve	Revaluation reserve for not used emission rights	Other reserves	Retained earnings	Total
	LTL	LTL	LTL	LTL	LTL	LTL
AT 31 December 2003	39.956.657	2.725.000		470.679	5.993.663	49.145.999
Effect of first-time adoption of IFRS					-587.381	-587.381
At 31 December 2003 (as restated)	39.956.657	2.725.000		470.679	5.406.282	48.558.618
Other reserves used				-470.679	470.679	0
Transfer to legal reserve		681.400			-681.400	0
Net profit (as restated)					6.654.756	6.654.756
At 31 December 2004 (as restated)	39.956.657	3.406.400	0	0	11.850.317	55.213.374
Transfer to legal reserve		286.900			-286.900	0
Dividends paid					-2.000.000	-2.000.000
Not used emission rights revaluation impact			798.307			798.307
Net profit					9.418.892	9.418.892
At 31 December 2005	39.956.657	3.693.300	798.307	0	18.982.309	63.430.573
Net profit					1.524.193	1.524.193
At 31 March 2005	39.956.657	3.693.300	798.307	0	20.506.502	64.954.766

Nina Šilerienė
Finansų direktorė

JSC „GRIGIŠKĖS“
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

JSC Grigiškės (the Company) was established in 1823. Former state owned company JSC Grigiškės was privatized on 3 December 1991 and registered as a joint stock company on 2 April 1992. The Company's shares are traded on the Lithuanian National Stock Exchange.

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

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

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

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

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

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

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

For the first time, the Company's financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (IFRS) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. Also, for the first time, the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio

JSC „GRIGIŠKĖS“
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

hedge accounting under IAS 39 which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact the financial statements had it been approved by the EU at the balance sheet date. Therefore, as a matter of reference, the term “IFRS” is hereafter used and referring to both IFRS and IFRS as adopted by the EU. The disclosure of transition from Lithuanian Business Accounting Standards to IFRS, as required by IFRS 1 is disclosed in Note 28 to the financial statements.

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

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

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

Principles of consolidation

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

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

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

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

Business combinations

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

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

Interest in associated company in Group consolidated financial statements

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

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

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

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

Investments in subsidiaries and associates in Parent separate financial statements

A subsidiary is a company over which the parent has control. An associate is an entity over which the parent has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the

JSC „GRIGIŠKĖS“

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2006

power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in subsidiaries and associated company are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount in the parent's balance sheet. Dividends received are charged to the parent's income statement.

Revenue recognition

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

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

Leasing

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

The Group as lessor

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

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

The Group as lessee

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

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

Foreign Currencies

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

Borrowing costs

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

Emission rights

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

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

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year. Thus, installations will surrender allowances for the first time by 30 April 2006 equal to their emissions during the 2005 calendar year.

Intangible asset

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

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

JSC „GRIGIŠKĖS”

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2006

Government grant

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

Provision for emission rights

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

Taxation

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

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

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

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

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

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

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

Tangible fixed assets

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

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

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

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

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

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

JSC „GRIGIŠKĒS”
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

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

Intangible Assets (except Emission Rights)

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

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

Impairment of assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Inventories

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

Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in the statement of income when there is objective evidence that the asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

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

Bank borrowings

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

Trade payables

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

JSC „GRIGIŠKĖS”
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

Financial risk management

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

Credit risk

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

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

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

Interest rate risk

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

Foreign currencies exchange risk

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

Segment reporting

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

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

Related parties

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

TRADE AND OTHER RECEIVABLES

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

	<u>The Group</u>	<u>The Company</u>	
	<u>2006 03 31</u>	<u>2006 03 31</u>	<u>2005</u>
	<u>LTL</u>	<u>LTL</u>	<u>LTL</u>
Trade receivables	18.664.436	18.133.115	15.396.867
Other receivables	1.150.095	793.019	1.266.408
	19.814.531	18.926.134	16.663.275
Less: amounts receivable after one year			
Total amounts receivable within one year	19.814.531	18.926.134	16.663.275
Less: Provisions for doubtful amounts receivable	1.193.683	1.166.685	1.166.685
Total amounts receivable within one year	18.620.848	17.759.449	15.496.590

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

JSC „GRIGIŠKĖS“
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

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

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
At 1 January	2.164.860	2.164.860	2.164.860
Increase of provisions	213.510	186.512	186.512
Reversal of provisions	1.184.687	1.184.687	1.184.687
At 31 March	1.193.683	1.166.685	1.166.685

LOANS GRANTED

As of 31 March loans granted consisted of the following:

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
Loan receivable from UAB Grigiškių transporto centras, denominated in euro, maturity date – 31 December 2005, interest free	74.853	74.853	119.958
Loan receivable from employee denominated in LTL, maturity date – 31 December 2007, interest free	16.935	16.935	19.354
	91.788	91.788	139.312
Less: loans granted after one year	9.677	9.677	9.677
Total loans granted within one year	82.111	82.111	129.635

CASH AND CASH EQUIVALENTS

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

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
Cash at bank	1.001.967	919.230	102.885
Cash on hand	25.477	24.758	38.369
Total	1.027.444	943.988	141.254

INVENTORIES

At 31 March inventories consisted of the following:

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
Materials	3.981.821	3.861.011	4.008.798
Finished goods	4.147.959	3.649.292	2.721.357
Work in progress	3.375.441	1.414.832	1.846.162
Goods in transit	306.872	306.872	171.511
Total	11.812.093	9.232.007	8.747.828

JSC „GRIGIŠKĖS“
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

SHARE CAPITAL AND RESERVES

As of 31 March 2006 shareholders of the Company were as follows:

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

Main shareholders:

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

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

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

JSC „GRIGIŠKĖS”
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

BORROWINGS

	The Company	
	2006 03 31	2005
	LTL	LTL
The borrowings are repayable as follows:		
Within one year	4.141.530	1.450.176
In the second year	2.175.264	2.175.264
In the third to fifth years inclusive	6.163.248	1.816.774
	12.480.042	5.442.214
Less: amount due for settlement within one year*	4.141.530	1.450.176
Amount due for settlement after one year	8.338.512	3.992.038
Analysis of borrowings by currency:		
LTL	2.691.354	
EUR	9.788.688	5.442.214
USD		
Total	12.480.042	5.442.214

TRADE AND OTHER PAYABLES

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
Trade payables	14.441.386	12.976.201	13.096.698
Taxes, salaries and social insurance payable	2.820.628	2.689.147	1.860.290
Accrued charges	74.568	74.568	80.934
Current portion of long term payable (Note 18)			
Advances paid	127.781	103.251	80.330
Other payables	1.414.028	1.315.351	609.204
Total	18.878.391	17.158.518	15.727.456

OTHER NON-CURRENT PAYABLES

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

	The Group	The Company	
	2006 03 31	2006 03 31	2005
	LTL	LTL	LTL
Within one year	3.676	3.676	
In the second year	3.676	3.676	
In the third to fifth years inclusive			
After five years			
Total	7.352	7.352	0
Less: current portion (note 17)	3.676	3.676	
Total non-current payables	3.676	3.676	0

JSC „GRIGIŠKĖS“
EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2006

31 March for the year 2006 other operating income consisted of the following:

	<u>The Group</u>	<u>The Company</u>	
	2006 03	2006 03	2005
	31	31	LTL
	<u>LTL</u>	<u>LTL</u>	<u>LTL</u>
Compensation received for Naujieji Verkiai sewerage pumping station and pressure line building transfer to Vilnius national water supply company			2.144.032
Rent income	80.483	80.483	212.016
Gain from disposal of fixed assets	241.849	241.849	91.985
The reversal of inventory written off, scrap recognition	54.225	54.225	75.414
Fines			6.237
Insurance compensation	368	368	5.863
Write off of accounts payables			3.324
VAT exemption	96	96	280
Other income	16.171	16.171	227.155
Total	393.192	393.192	2.766.306

OTHER OPERATING EXPENSES

31 March for the year 2006 other operating expenses consisted of the following:

	<u>The Group</u>	<u>The Company</u>	
	2006	2006	2005
	LTL	LTL	LTL
	<u>LTL</u>	<u>LTL</u>	<u>LTL</u>
Rent expenses	6.236	6.236	15.035
Other expenses	11.674	11.674	66.412
Total	17.910	17.910	81.447