

**AB UTENOS TRIKOTAŽAS**

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS  
ANNUAL AND INDEPENDENT AUDITOR'S REPORTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

**AB UTENOS TRIKOTAŽAS, company code 183709468, J. Basanavičiaus Str. 122, Utena, Lithuania**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF AB UTENOS TRIKOTAŽAS**

## Independent auditor's report

To the Shareholders of Utenos trikotažas AB

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Utenos trikotažas AB and its subsidiaries ('the Group') and the financial statements of Utenos trikotažas AB ('the Company') set out in pages 5 - 54 which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the *Basis for Qualified Opinion - scope limitation* paragraph, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Basis for Qualified Opinion - departure from accounting policies*

As discussed in Note 15 to the accompanying financial statements, as at 31 December 2006 the Group was not in compliance with certain debt covenants which permitted the lender to demand immediate repayment of borrowings totaling LTL 12,075 thousand, including borrowings of LTL 7,331 thousand classified as non-current at the balance sheet date. In our opinion, such classification of borrowings is not in line with *IAS 1 Presentation of Financial Statements* which requires the liability to be classified as current at the balance sheet date unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Consequently, non-current borrowings should be reduced and current borrowings should be increased by LTL 7,331 thousand respectively as at 31 December 2006.

*Basis for Qualified Opinion - scope limitation*

Based on the limitations on the scope of our work agreed with management of the Company, our audit procedures in respect of financial statements of the subsidiary OAO MTF Mrija were limited and did not include testing of taxes related accounts and balances. The subsidiary's other taxes receivable, prepaid income tax, deferred tax balances and income tax benefit included into consolidated financial statements of the Group as of 31 December 2006 amounted to LTL 1,392 thousand, nil, nil and LTL 20 thousand respectively. Consequently, we were not able to determine whether any adjustments to these amounts might have been necessary had the audit procedures in respect of taxes of this subsidiary been performed.

The financial statements of the wholly-owned subsidiary ZAO UTP Ukraine, which was disposed as a part of UAB Utenos trikotažo prekyba subgroup in January 2006 as described in Note 9 to the accompanying financial statements, for the year ended 31 December 2005 have not been audited. Subsidiary's inventory balance and revenue included into consolidated financial statements of the Group as of 31 December 2005 and for the year then ended amounted to LTL 508 thousand and LTL 3,448 thousand respectively. Consequently, neither other auditors nor we were able to determine whether any adjustments to these amounts might have been necessary had the audit of this subsidiary been performed. Adjustments, if any, to these amounts would have an impact on the gain on disposal of subsidiary amounting to LTL 436 thousand recognized in the income statement of the Group for the year ended 31 December 2006.

*Qualified Opinion*

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion - departure from accounting policies* paragraph, and except for the possible effects of the matters described in the *Basis for Qualified Opinion - scope limitation* paragraph, the financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2006 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

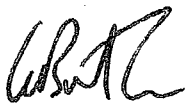
*Other Matters*

The financial statements of the Group and the Company as of 31 December 2005 were audited by other auditors whose report, dated 27 February 2006, expressed a qualified opinion on those statements due to unaudited subsidiary's ZAO UTP Ukraine inventory and revenue balances as described in the *Basis for Qualified Opinion - scope limitation* paragraph.

**Report on Other Legal and Regulatory Requirements**

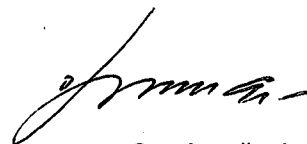
Furthermore, we have read the Annual Report for the year ended 31 December 2006 set out on pages 55 – 97 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
30 March 2007



Ona Armalienė  
Auditor's Certificate No.000008

## Balance sheets

	Notes	Group		Company	
		As of 31 December 2006	2005	As of 31 December 2006	2005
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	6				
Goodwill		2,523	2,622	-	-
Other intangible assets		451	137	155	36
Prepayments for intangible assets		716	641	716	641
Total intangible assets		3,690	3,400	871	677
Property, plant and equipment	7				
Land and buildings		9,023	13,605	4,617	4,706
Structures		476	498	303	334
Vehicles and other property, plant and equipment		39,128	35,403	25,500	27,051
Construction in progress and prepayments		4,272	1,359	2,474	155
Total property, plant and equipment		52,899	50,865	32,894	32,246
Investment property	8	5,651	931	5,651	5,098
Non-current financial assets					
Investments into subsidiaries	9	-	-	10,742	10,750
Receivables from related parties	28	1,050	1,100	-	-
Trade and other receivables		117	51	73	-
Total non-current financial assets		1,167	1,151	10,815	10,750
Deferred income tax asset	23	428	811	206	467
<b>Total non-current assets</b>		<b>63,835</b>	<b>57,158</b>	<b>50,437</b>	<b>49,238</b>
<b>Current assets</b>					
Inventories and prepayments					
Inventories	10	21,678	23,878	12,451	14,377
Prepayments		406	385	288	97
Total inventories and prepayments		22,084	24,263	12,739	14,474
Trade and other accounts receivable	5				
Trade receivables	11	17,178	16,171	12,215	11,550
Receivables from subsidiaries	28	-	-	7,439	6,000
Receivables from other related parties	28	6,546	91	5,354	6
Prepaid income tax		1,228	1,156	1,227	1,156
Other taxes receivable		2,944	1,451	870	699
Other receivables		53	74	-	-
Total accounts receivable		27,949	18,943	27,105	19,411
Other current assets		142	328	74	55
Cash and cash equivalents	12	1,526	1,790	873	891
<b>Total current assets</b>		<b>51,701</b>	<b>45,324</b>	<b>40,791</b>	<b>34,831</b>
<b>Total assets</b>		<b>115,536</b>	<b>102,482</b>	<b>91,228</b>	<b>84,069</b>



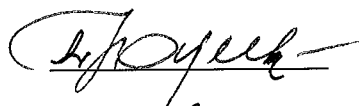
## Income statements

	Notes	Group		Company	
		Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	5,17	163,274	173,327	124,810	121,423
Cost of sales	18	(138,342)	(135,952)	(102,788)	(96,144)
<b>Gross profit</b>		<b>24,932</b>	<b>37,375</b>	<b>22,022</b>	<b>25,279</b>
Selling expenses	19	(4,166)	(11,153)	(3,017)	(3,367)
General and administrative expenses	19	(14,552)	(16,657)	(9,485)	(9,941)
Other operating income (expenses), net	20	1,618	1,268	668	2,606
<b>Operating profit</b>		<b>7,832</b>	<b>10,833</b>	<b>10,188</b>	<b>14,577</b>
Finance cost, net	21	(3,403)	(1,056)	(1,648)	(1,249)
<b>Profit before income tax</b>		<b>4,429</b>	<b>9,777</b>	<b>8,540</b>	<b>13,328</b>
Income tax expense	23	(2,335)	(2,102)	(2,088)	(1,941)
<b>Profit for the year</b>		<b>2,094</b>	<b>7,675</b>	<b>6,452</b>	<b>11,387</b>
<b>Attributable to:</b>					
Equity holders of the Company	24	2,374	7,748	6,452	11,387
Minority interest		(280)	(73)	-	-
		<b>2,094</b>	<b>7,675</b>	<b>6,452</b>	<b>11,387</b>
Basic and diluted earnings per share, attributable to the equity holders of the Company (in LTL)	24	0.12	0.39	-	-

The notes on pages 12 to 54 are an integral part of these financial statements.


General manager

Regina Sajienė



Chief accountant

Valda Gylienė





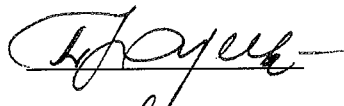

## Statements of changes in equity

Group	Notes	Equity attributable to the equity holders of the Company						Total equity
		Share capital	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Minority interest	
<b>Balance as of 1 January 2005</b>		<b>19,834</b>	<b>20</b>	<b>11,983</b>	<b>13,101</b>	<b>44,938</b>	<b>1,908</b>	<b>46,846</b>
Currency translation differences – recognised directly in equity			(104)	-	-	(104)	-	(104)
Net profit (loss) for the year		-	-	-	7,748	7,748	(73)	7,675
<b>Total recognised income and expense for 2005</b>		-	(104)	-	7,748	7,644	(73)	7,571
Dividends paid	14, 25	-	-	-	(17,851)	(17,851)	(672)	(18,523)
Transferred to retained earnings	14	-	-	(10,000)	10,000	-	-	-
Interest sold		-	-	-	-	-	43	43
Acquisition of minority interest in subsidiaries		-	-	-	554	554	-	554
<b>Balance as of 31 December 2005/ 1 January 2006</b>		<b>19,834</b>	<b>(84)</b>	<b>1,983</b>	<b>13,552</b>	<b>35,285</b>	<b>1,206</b>	<b>36,491</b>
Currency translation differences – recognised directly in equity		-	(119)	-	-	(119)	-	(119)
Net profit (loss) for the year		-	-	-	2,374	2,374	(280)	2,094
<b>Total recognised income and expense for 2006</b>		-	(119)	-	2,374	2,255	(280)	1,975
Dividends paid	14, 25	-	-	-	(3,967)	(3,967)	-	(3,967)
Contributions by minority interest		-	-	-	-	-	158	158
<b>Balance as of 31 December 2006</b>		<b>19,834</b>	<b>(203)</b>	<b>1,983</b>	<b>11,959</b>	<b>33,573</b>	<b>1,084</b>	<b>34,657</b>

## Statements of changes in equity (cont'd)

<u>Company</u>	<u>Notes</u>	<u>Share capital</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as of 1 January 2005</b>		<b>19,834</b>	<b>11,983</b>	<b>7,565</b>	<b>39,382</b>
Dividends paid	14, 25	-	-	(17,851)	(17,851)
Transferred to retained earnings	14	-	(10,000)	10,000	-
Net profit for the year – <b>total recognised income and expense for 2005</b>		-	-	11,387	11,387
<b>Balance as of 31 December 2005/ 1 January 2006</b>		<b>19,834</b>	<b>1,983</b>	<b>11,101</b>	<b>32,918</b>
Dividends paid	14, 25	-	-	(3,967)	(3,967)
Net profit for the year – <b>total recognised income and expense for 2006</b>		-	-	6,452	6,452
<b>Balance as of 31 December 2006</b>		<b>19,834</b>	<b>1,983</b>	<b>13,586</b>	<b>35,403</b>

The notes on pages 12 to 54 are an integral part of these financial statements.

<u>General manager</u>	<u>Regina Sajienė</u>		_____
<u>Chief accountant</u>	<u>Valda Gylienė</u>		_____


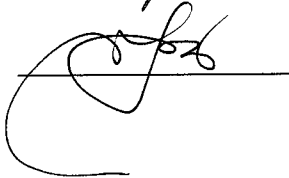
## Cash flow statements

	Notes	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2006	2005	2006	2005
<b>Cash flows from operating activities</b>					
Net profit for the year		2,094	7,675	6,452	11,387
<b>Adjustments for non-cash items:</b>					
Impairment of investment	20	-	-	-	3,918
Gain on disposal of subsidiary	20	(436)	-	-	-
Excess of acquirer's interest in the net assets	20	-	(457)	-	-
Depreciation and amortisation	6,7,8	8,937	7,629	5,953	5,792
Reversal of impairment of property, plant and equipment and investment property	19	(698)	(54)	(698)	(39)
Gain from disposal of property, plant and equipment	20	(705)	(964)	(220)	(344)
Write-off of property, plant and equipment		9	-	2	-
Impairment and write-off of inventories		93	(116)	5	198
Impairment and write-off of accounts receivable		(163)	(81)	(10)	-
Interest income	21	(176)	(64)	(121)	(59)
Interest expenses	21	2,150	1,376	1,416	1,090
Foreign exchange loss on borrowings		785	-	-	-
Income tax expenses	23	2,335	2,102	2,088	1,941
<b>Changes in working capital:</b>					
Decrease (increase) in inventories		(639)	(6,603)	1,920	(4,915)
Decrease (increase) in trade receivables		(7,382)	1,676	(6,013)	(163)
Decrease (increase) in receivables from subsidiaries		-	-	1,095	(4,222)
Decrease (increase) in other receivables and other current assets		(1,855)	1,926	(2,988)	597
Increase in trade and other accounts payable		9,189	7,823	3,539	6,102
(Decrease) increase in taxes payable and other current liabilities		600	(891)	(17)	1,214
<b>Cash generated from operations</b>		<b>14,138</b>	<b>20,977</b>	<b>12,403</b>	<b>22,497</b>
Income tax paid		(1,943)	(3,136)	(1,898)	(3,125)
<b>Net cash flows from operating activities</b>		<b>12,195</b>	<b>17,841</b>	<b>10,505</b>	<b>19,372</b>
<b>Cash flows from investing activities</b>					
Acquisition of non-current tangible assets		(13,364)	(11,774)	(1,256)	(6,943)
Acquisition of intangible assets		(524)	(213)	(237)	(213)
Proceeds from sale of non-current assets		2,426	1,878	1,173	1,526
Acquisition of subsidiaries, net of cash acquired (in the Group)		-	(2,841)	-	(5,440)
Disposals of subsidiaries, net of cash disposed (in the Group)	9	(507)	-	9	-
Collection of loans granted		-	100	-	-
Interest received		176	64	121	59
<b>Net cash flows used in investing activities</b>		<b>(11,793)</b>	<b>(12,786)</b>	<b>(190)</b>	<b>(11,011)</b>

**Cash flow statements (cont'd)**

	Notes	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2006	2005	2006	2005
<b>Cash flows from financing activities</b>					
Cash flows related to the Company's shareholders					
Dividends paid		(3,967)	(18,523)	(3,967)	(17,851)
		(3,967)	(18,523)	(3,967)	(17,851)
Cash flows related to other sources of financing					
Proceeds from borrowings		17,283	22,891	4,000	17,480
Repayment of borrowings		(11,969)	(8,336)	(8,960)	-
Contributions by minorities		158	-	-	-
Interest paid		(2,150)	(1,376)	(1,416)	(1,090)
		3,322	13,179	(6,376)	9,260
<b>Net cash flows used in financial activities</b>		<b>(645)</b>	<b>(5,344)</b>	<b>(10,343)</b>	<b>(8,591)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(243)</b>	<b>(289)</b>	<b>(18)</b>	<b>(230)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	12	<b>1,790</b>	<b>2,079</b>	<b>891</b>	<b>1,121</b>
<b>Exchange losses on cash and cash equivalents</b>		<b>(21)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	12	<b>1,526</b>	<b>1,790</b>	<b>873</b>	<b>891</b>

The notes on pages 12 to 54 are an integral part of these financial statements.

General manager	Regina Sajienė		_____
Chief accountant	Valda Gylienė		_____

**AB UTENOS TRIKOTAŽAS**  
**NOTES TO THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**  
(all amounts are in LTL thousand unless otherwise stated)

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**Notes to the financial statements**

**1. General information**

AB Utenos Trikotažas (hereinafter "the Company") is a joint stock company registered in the Republic of Lithuania on 6 December 1994. The address of its registered office is as follows:

Basanavičiaus Str. 122,  
Utena,  
Lithuania

The Company is engaged in production of knitted articles.

The shares of AB Utenos trikotažas are traded on the Official List of the National Stock Exchange.

As of 31 December 2006 and 2005 the shareholders of the Company were:

	2006		2005	
	Number of shares held	Equity (%)	Number of shares held	Equity (%)
UAB Koncernas SBA	9,475	47.77	10,115	51.00
Investment fund Amber Trust	3,000	15.13	3,000	15.13
East Capital Asset	2,034	10.26	1,991	10.04
Employees of the Company	398	2.00	403	2.03
Other shareholders	4,927	24.84	4,325	21.44
	<u>19,834</u>	<u>100.00</u>	<u>19,834</u>	<u>100.00</u>

In 2006, the average number of employees of the Company was 999 (2005: 1,065).

The consolidated Group (hereinafter "the Group") consists of the Company and the following subsidiaries:

	Registered address	Group's share (%) as at 31 December		Main activities
		2006	2005	
AB Šatrija	Vilniaus Str. 5, Raseiniai	89.78	89.78	Sewing of clothes
UAB Gotija	Laisvės Ave 33, Kaunas	90.50	90.50	Retail
OA O MTF Mrija	Motroso Str. 13, Mukačiov, Ukraine	91.85	91.85	Production of knitted articles
UAB Utenos trikotažo prekyba group	Basanavičiaus Str. 122, Utena	-	100.00	Retail

On 31 December 2005 UAB Utenos trikotažo prekyba group consisted of UAB Utenos trikotažo prekyba and its subsidiary ZAO UTP Ukraine. In January 2006, the subsidiary UAB Utenos trikotažo prekyba was sold to the shareholder of the Company UAB Koncernas SBA. (Notes 9 and 26)

In 2006, the average number of employees of the Group was 1,969 (2005: 2,185).

The shareholders of the Company have the statutory right to amend the financial statements after issue.

## **2. Summary of significant accounting policies**

The principle 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**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The 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 judgment in the process of applying the Company's and the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### *Adoption of New or Revised Standards and Interpretations*

##### *(a) Standards, amendments and interpretations adopted in 2006*

Amendments to IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 4 Insurance Contracts - Financial Guarantee Contracts are mandatory for Company's and Group's accounting periods beginning on or after 1 January 2006. These amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. As the estimated fair value of financial guarantee contracts issued by the Company and the Group was not material as at 1 January 2005 and 31 December 2005, adoption of this standard did not have any material impact on the Company's and the Group's accounts.

##### *(b) Standards, amendments to standards and interpretations effective in 2006 but not relevant*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Company's and Group's operations:

- IAS 19 (Amendment), Actuarial gains and losses, group plans and disclosures;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

**AB UTENOS TRIKOTAŽAS**  
**NOTES TO THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**  
(all amounts are in LTL thousand unless otherwise stated)

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2.1 *Basis of preparation (continued)*

(c) *Standards, amendments to standards and interpretations that have been issued but are not effective for 2006 and have not been early adopted*

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). Management is currently assessing the impact of IFRS 7 on the Company's and the Group's operations;
- IFRS 8, Operating segments (effective from 1 January 2009). Management have not yet started its assessment of the impact of IFRS 8 on the Company's and the Group's operations;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). The Company and the Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Company's and the Group's accounts;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). The Company and the Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Company's or the Group's accounts.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 is not relevant to the Company's and Group's operations;
- IFRIC 9, Reassessment of Embedded Derivatives. Management believes that this interpretation is not relevant for the Company's and the Group's operations;
- IFRIC 11, IFRS 2 - Company and treasury share transactions. Management do not expect the interpretation to be relevant for the Company and the Group;
- IFRIC 12, Service Concession Arrangements. Management do not expect the interpretation to be relevant for the Company and the Group.

IFRIC 10, 11, 12 and IFRS 8 have not been yet endorsed by EU.

## **2.2 Consolidation**

### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### *(b) Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

## **2.3 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 are subject to risks and returns that are different from those of segments operating in other economic environments.



## **2.4 Foreign currency translation**

### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities 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.

Litas is pegged to the Euro at an exchange 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 such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### *(c) Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## **2.5 Intangible assets**

### *(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment (Note 2.8) and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### *(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 using the straight-line method over their estimated useful lives (2 - 5 years).

Costs that are directly associated with the development of identifiable and unique software products controlled by the Company and the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (2 - 5 years).

## **2.6 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation.

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10 – 80 years
Structures	4 – 25 years
Motor vehicles	4 – 7 years
Other property, plant and equipment	2 – 20 years

## **2.6 Property, plant and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.8). Impairment of property, plant and equipment as well as reversals of impairment during the year are included into general and administrative expenses caption in the income statement.

Borrowing costs are expensed when incurred.

Construction in progress is transferred to appropriate groups of property, plant and equipment when it is completed and available for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount and are included in operating profit.

## **2.7 Investment property**

Property held for long-term rental yields or capital appreciation or both and which is not occupied by the Company and the Group is classified as investment property. Investment property comprises freehold land and buildings.

Investment property is stated at historical cost, less accumulated depreciation. 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 Group 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.

Land is not depreciated. Buildings are depreciated over its expected useful life of 40 - 70 years using the straight-line method to write off the cost of each asset to its residual value. Depreciation of investment property is included into other income (expenses) caption in the income statement.

Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.8). Impairment of investment property as well as reversals for the year are included into general and administrative expenses in the Company's and Group's income statement.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit from operations.

Transfers to, or from, investment property are made when and only when, there is an evidence of a change in use.

## **2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances 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). Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses on goodwill are not reversed.

## **2.9 Financial assets**

### *(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. 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. Loans and receivables are classified as 'trade and other amounts receivable' in the balance sheet (Note 2.11).

Loans and receivables are carried at amortised cost using the effective interest method. The Company and the Group assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other amounts receivables is described in Note 2.11.

### *(b) Investments in subsidiaries*

The Company's investment in subsidiaries are stated at cost less impairment.

## **2.10 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by 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 indirect production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### **2.11 Trade and other amounts receivable**

Amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of amounts receivables is established when there is objective evidence that the Company or the Group will not be able to collect all amounts due according to the original terms of 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 amounts 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 original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

### **2.12 Cash and cash equivalents**

Cash and cash equivalents are carried at nominal value.

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

### **2.13 Share capital**

#### *(a) Ordinary shares*

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their par value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

#### *(b) Treasury shares*

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributed incremental external costs is deducted from shareholders' equity as treasury shares until they are sold, reissued, or cancelled. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Where such shares are subsequently sold or reissued, any consideration received is presented in the consolidated financial statements as a change in shareholders' equity.

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**2.14 Reserves**

*(a) Foreign currency translation reserve*

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiaries. Exchange differences are classified as equity in the consolidated financial statements until disposal of the investment. Upon disposal of the corresponding assets, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

*(b) Other reserves*

Other reserves are established upon the decision of annual general meeting of shareholders on profit appropriation. These reserves can be used only for the purposes approved by annual general meeting of shareholders.

Legal reserve is included into other reserves. Legal reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5 per cent of net result are required until the reserve reaches 10 per cent of share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

*(c) Reserve for acquisition of treasury shares*

This reserve is maintained as long as the Company and the Group is involved in acquisition/disposal of its treasury shares. This reserve is compulsory under the Lithuanian regulatory legislation and should not be lower than the nominal value of treasury shares acquired.

**2.15 Trade and other payables**

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

**2.16 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) 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 or the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## **2.17 Income tax**

### *(a) Current income tax*

The Group companies are taxed individually irrespective of the overall results of the Group.

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania and the Republic of Ukraine.

Starting from 1 January 2002 income tax rate applied for the Company and subsidiaries operating in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies will have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%. Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature. Up to 1 January 2002 companies also applied an investment incentive, which allowed expensing immediately acquisition costs of tangible non-current assets for corporate profit tax calculation purposes, however, depreciation expenses subsequently charged on these assets are not tax deductible. Income tax rate in Ukraine is 25%.

### *(b) 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 consolidated 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, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## **2.18 Leases**

### *(a) Finance lease - where the Company or the Group is the lessee*

Leases of property, plant and equipment where the Company or the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

### *(b) Operating lease - where the Company or the Group is the lessee or the lessor*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Payments received under operating leases (net of any incentives given to the lessee) are credited to the income statement on a straight-line basis over the period of the lease. Properties (land and buildings) leased out under operating leases are included in investment property in the balance sheet (Note 2.7).

## **2.19 Employee benefits**

### *(a) Social security contributions*

The Company and the Group 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 Group 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. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

### *(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 and the Group 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.



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**2.19** *Employee benefits (continued)*

*(c) Bonus plans*

The Company and the Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

**2.20** **Provisions**

Provisions for restructuring costs and legal claims are recognised when: the Company or the Group 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.

**2.21** **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's and the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

*(a) Sales of goods*

Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer and amount of revenue can be estimated reliably.

*(b) Sewing services*

Revenue from sewing services is recognised when the service has been completed.

*(c) Interest income*

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

*(d) Dividend income*

Dividend income is recognised when the right to receive payment is established.

**2.21 Revenue recognition (continued)**

*(e) Rental income*

Payments received under operating leases (net of any incentives given to the lessee) are credited to the income statement on a straight-line basis over the period of the lease (Note 2.18).

**2.22 Dividend distribution**

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

**2.23 Earnings per share**

Basic earnings per share are calculated by dividing net profit attributed to the equity holders of the Company from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Group and held as treasury shares.

**3. Financial risk management**

*(a) Financial risk factors*

The Company's and the Group's activities are exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company's and Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company and the Group.

Market risk: foreign exchange risk

Only a minor part of the Company's and the Group's transactions are made and, respectively, the outstanding balances of monetary assets and liabilities as of 31 December 2006 and 2005 are denominated, in currencies other than LTL and EUR. As LTL is pegged to EUR, neither the Company nor the Group is exposed to any significant foreign exchange risk.

Credit risk

The Company's and the Group's procedures are in force to permanently ensure that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Additionally, the procedures of credit insurance are applied.

**3. Financial risk management (continued)**

*(a) Financial risk factors (continued)*

Liquidity risk

The Company's and the Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

Interest rate risk

The Company's and the Group's loans bear a variable interest rate which creates an interest rate risk (Note 15). The Group and the Company have no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

*(b) Fair value estimation*

The Company's and the Group's principal financial instruments not carried at fair value are trade and other long-term and short-term receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value.
- (b) The fair value of non-current borrowings and non-current accounts receivable is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

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**4. Critical accounting estimates and judgments**

Estimates and judgments 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.

The Company and the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*(a) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates which are further discussed in Note 6.

*(b) Income taxes*

Tax authorities have right to examine accounting records of the Company and its Lithuanian subsidiaries at anytime during the 5 year period after the current tax year (the Ukrainian subsidiary - 3 year period after the current year) and account for additional taxes and fines. In the opinion of the Company's management, currently there are no circumstances which would raise substantial liability in this respect to the Company and to the Group.

*(c) Related party transactions*

In the normal course of business the Company and the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties.

Furthermore, within the Company's and Group's trade and other amounts receivable balance as at 31 December 2006 receivable of LTL 5,354 thousand and LTL 6,542 thousand (Note 28), respectively, from the related party UAB Utenos trikotažo prekyba is accounted for. In addition, within the Company's receivable from subsidiaries balance as at 31 December 2006 receivables, prepayments and short-term loans totalling LTL 7,302 thousand from the subsidiary OAO MTF Mrija are accounted for (Note 28). In the opinion of the Company's management the above mentioned receivables will be recovered during the forthcoming twelve month period.

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**4. Critical accounting estimates and judgments (continued)**

*(d) Estimates of useful lives of property, plant and equipment*

The Company and the Group has machinery, where the useful lives are estimated based on the projected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

Furthermore, the Company and the Group has buildings where the useful lives exceed 50 years (Notes 2.6 and 2.7). Management of the Company believes that based on the past experience and present condition of the buildings such longer usual useful lives are justifiable.

**5. Segment information**

*Primary reporting format – business segments*

The Company's main business segment is production of knitted articles.

The Group also produces other clothes, provides sewing services and is engaged in retail and wholesale trade of its own production. Sewing services as well as retail and wholesale trade were considered to be a separate reportable segments of the Group in prior years. However, considering reducing share of sewing services provided to external customers of the Group, as well as significantly reduced revenue from retail and wholesale trade as a result of disposal of subsidiary UAB Utenos trikotažo prekyba group, management considers that the only reportable business segment of the Group is the production of knitted articles and other clothes.

*Secondary reporting format – geographical segments*

Grouping into different geographical segments is based on the Group's and Company's internal management accounting information system. Management believes that these geographical segments have certain common characteristics.

<b>2006</b>	<b>Western Europe</b>	<b>Lithuania and the Baltic states</b>	<b>Other regions</b>	<b>Elimination</b>	<b>Total</b>
Revenue					
External sales of the Group	140,731	21,547	996	-	163,274
Internal sales of the Group	-	8,639	2,618	(11,257)	-
	<u>140,731</u>	<u>30,186</u>	<u>3,614</u>	<u>(11,257)</u>	<u>163,274</u>
Assets (trade and other accounts receivable)	21,712	11,973	1,703	(7,439)	27,949

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**5. Segment information (continued)**

2005	Western Europe	Lithuania and the Baltic states	Other regions	Elimination	Total
Revenue					
External sales of the Group	141,293	28,358	3,676	-	173,327
Internal sales of the Group	-	12,103	72	(12,175)	-
	141,293	40,461	3,748	(12,175)	173,327
Assets (trade and other accounts receivable)	16,057	8,419	467	(6,000)	18,943

The management believes that it is not practical to allocate assets, other than accounts receivable to these geographical segments.

The Group's assets, except for the assets of subsidiary OAO MTF Mrija (in 2005, in addition assets of subsidiary ZAO UTP Ukraina), which are located in the Republic of Ukraine, are located in the Republic of Lithuania. The carrying value of the property, plant and equipment located in Ukraine was LTL 13.4 million as of 31 December 2006 (LTL 6.7 million as of 31 December 2005). Capital expenditures related property, plant and equipment in Ukraine amounted to LTL 10.7 million in 2006 (including LTL 1.1 million intercompany purchases of property, plant and equipment) (LTL 3 million in 2005, including LTL 1.6 million intercompany purchases of property, plant and equipment) .

Intersegment transactions include transfers among business and among geographical segments. Such transactions are accounted at cost price plus certain margin. These transfers are eliminated in consolidation.

The Company's revenues from one client exceeding 10% of all sales in 2006 and 2005 are as follows:

Client	Geographical segment	Percentage from total revenue (%)	
		2006	2005
AB Hennes Mauritz	Western Europe	17	25
AB Kappahl	Western Europe	11	17
French Connection	Western Europe	Less than 10%	17

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**6. Intangible assets**

	Group			Total	Company
	Goodwill, related to OAO MTF Mrija	Goodwill, related to UAB Justima	Other intangible assets		Other Intangible assets
<b>Cost:</b>					
Balance as of 1 January 2005	-	1,522	2,919	4,441	1,938
Additions	1,229	-	157	1,386	2
Disposals and write offs	-	-	(616)	(616)	(165)
Balance as of 31 December 2005	1,229	1,522	2,460	5,211	1,775
Additions	-	-	449	449	162
Disposal of subsidiary	-	-	(372)	(372)	-
Disposals and write offs	-	-	(8)	(8)	(9)
Foreign currency translation differences	(99)	-	(12)	(111)	-
Balance as of 31 December 2006	1,130	1,522	2,517	5,169	1,928
<b>Amortisation and impairment:</b>					
Balance as of 1 January 2005	-	129	2,661	2,790	1,795
Charge for the year	-	-	243	243	109
Disposals and write offs	-	-	(581)	(581)	(165)
Balance as of 31 December 2005	-	129	2,323	2,452	1,739
Charge for the year	-	-	112	112	43
Disposal of subsidiary	-	-	(359)	(359)	-
Disposals and write offs	-	-	(9)	(9)	(9)
Foreign currency translation differences	-	-	(1)	(1)	-
Balance as of 31 December 2006	-	129	2,066	2,195	1,773
<b>Net book value as of 31 December 2004</b>	-	<b>1,393</b>	<b>258</b>	<b>1,651</b>	<b>143</b>
<b>Net book value as of 31 December 2005</b>	<b>1,229</b>	<b>1,393</b>	<b>137</b>	<b>2,759</b>	<b>36</b>
<b>Net book value as of 31 December 2006</b>	<b>1,130</b>	<b>1,393</b>	<b>451</b>	<b>2,974</b>	<b>155</b>

The Company and the Group have no internally generated intangible assets. Amortisation expenses of intangible assets are included within general and administrative expenses in the income statement.

As of 31 December 2006 part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 1,768 thousand and LTL 1,723 thousand respectively (LTL 1,978 thousand and LTL 1,469 thousand as of 31 December 2005) were fully amortised but still in use.

Prepayment for intangible assets in the Company's and the Group's balance sheets amounting to LTL 716 thousand (as of 31 December 2005 – LTL 641 thousand) is made for installation works of accounting system software.

**6. Intangible assets (continued)**

***Goodwill***

On 26 July 2004 the subsidiary AB Šatrija, controlled by the Company, purchased 100% of the shares of UAB Justima and took control over this company which was later merged into AB Šatrija. According to the terms of the share purchase agreement, AB Šatrija paid LTL 1,565 thousand for those shares. The fair value of the net asset acquired amounted to LTL 43 thousand at the time of acquisition; therefore, the amount of LTL 1,522 thousand was accounted in the financial statements as goodwill. This goodwill has been allocated to AB Šatrija as a cash generating unit for an impairment testing purposes. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a three-year period. The pre-tax discount rate applied to cash flow projections is 11.8 % and cash flows beyond 3-year period are extrapolated using a 1.5% growth rate that reflects the best estimate of the management based on current industry situation. Increase of estimated pre-tax discount rate applied to the discounted cash-flows by 1% (i.e. from 11.8% to 12.8%) or decrease in a growth rate used for extrapolation of cash-flows after 3 year period by 1% (i.e. from 1.5% to 0.5%) would not have an impact on assessment of this goodwill impairment as of 31 December 2006.

On 30 July 2005 the Company purchased 67% of shares of OAO MTF Mrija operating in Ukraine. The Company paid LTL 2,998 thousand for 8,740,734 OAO MTF Mrija shares with par value of UAH 0.01 each and has recorded a goodwill of LTL 1,229 thousand on the transaction. This goodwill has been allocated to Ukrainian operations as a cash generating unit for an impairment testing purposes. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a three-year period. The discount rate applied to cash flow projections is 8% and cash flows beyond 3-year period are extrapolated using a 1.5% growth rate that reflects the best estimate of the management based on current industry situation. Increase of estimated pre-tax discount rate applied to the discounted cash-flows by 1% (i.e. from 8% to 9%) or decrease in a growth rate used for extrapolation of cash-flows after 3 year period by 1% (i.e. from 1.5% to 0.5%) would not have an impact on assessment of this goodwill impairment as of 31 December 2006.



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**7. Property, plant and equipment**

Group	Land and buildings	Structures	Vehicles and other property, plant and equipment	Construction in progress and prepayments	Total
<b>Cost:</b>					
Balance as of 1 January 2005	19,181	1,233	82,969	156	103,539
Acquisition of subsidiary	1,637	26	1,018	1,041	3,722
Additions	1,514	39	8,706	1,358	11,617
Disposals and write offs	(295)	(35)	(6,420)	-	(6,750)
Reclassifications (Note 8)	200	-	1,044	(1,196)	48
Balance as of 31 December 2005	22,237	1,263	87,317	1,359	112,176
Additions	1,007	118	15,348	3,068	19,541
Disposal of subsidiary	(538)	-	(4,056)	-	(4,594)
Disposals and write offs	(1,496)	(96)	(8,170)	-	(9,762)
Reclassifications (Note 8)	(5,427)	(72)	155	(155)	(5,499)
Foreign currency translation differences	(380)	(53)	(994)	-	(1,427)
Balance as of 31 December 2006	15,403	1,160	89,600	4,272	110,435
<b>Accumulated depreciation:</b>					
Balance as of 1 January 2005	7,690	751	50,572	-	59,013
Charge for the year	308	44	7,006	-	7,358
Disposals and write offs	(125)	(30)	(5,664)	-	(5,819)
Reclassifications (Note 8)	7	-	-	-	7
Balance as of 31 December 2005	7,880	765	51,914	-	60,559
Charge for the year	252	53	8,375	-	8,680
Disposal of subsidiary	-	-	(2,698)	-	(2,698)
Disposals and write offs	(1,069)	(52)	(6,930)	-	(8,051)
Reclassifications (Note 8)	(605)	(35)	-	-	(640)
Foreign currency translation differences	(138)	(47)	(189)	-	(374)
Balance as of 31 December 2006	6,320	684	50,472	-	57,476
<b>Impairment:</b>					
Balance as of 1 January 2005	786	-	15	-	801
Reversal	(34)	-	(15)	-	(49)
Balance as of 31 December 2005	752	-	-	-	752
Reclassifications (Note 8)	(692)	-	-	-	(692)
Balance as of 31 December 2006	60	-	-	-	60
<b>Net book value as of 31 December 2004</b>	<b>10,705</b>	<b>482</b>	<b>32,382</b>	<b>156</b>	<b>43,725</b>
<b>Net book value as of 31 December 2005</b>	<b>13,605</b>	<b>498</b>	<b>35,403</b>	<b>1,359</b>	<b>50,865</b>
<b>Net book value as of 31 December 2006</b>	<b>9,023</b>	<b>476</b>	<b>39,128</b>	<b>4,272</b>	<b>52,899</b>

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**7. Property, plant and equipment (continued)**

Company	Land and buildings	Structures	Vehicles and other property, plant and equipment	Construction in progress and prepayments	Total
<b>Cost:</b>					
Balance as of 1 January 2005	7,503	569	61,002	9	69,083
Additions	-	2	6,785	154	6,941
Disposals and write offs	(68)	-	(4,164)	-	(4,232)
Reclassifications	-	-	8	(8)	-
Balance as of 31 December 2005	7,435	571	63,631	155	71,792
Additions	-	-	4,894	2,474	7,368
Disposals and write offs	-	-	(4,680)	-	(4,680)
Reclassifications	-	-	155	(155)	-
Balance as of 31 December 2006	7,435	571	64,000	2,474	74,480
<b>Accumulated depreciation:</b>					
Balance as of 1 January 2005	2,636	204	34,172	-	37,012
Charge for the year	88	33	5,402	-	5,523
Disposals and write offs	(56)	-	(2,994)	-	(3,050)
Balance as of 31 December 2005	2,668	237	36,580	-	39,485
Charge for the year	90	31	5,644	-	5,765
Disposals and write offs	-	-	(3,724)	-	(3,724)
Balance as of 31 December 2006	2,758	268	38,500	-	41,526
<b>Impairment:</b>					
Balance as of 1 January 2005	82	-	-	-	82
Reversal	(21)	-	-	-	(21)
Balance as of 31 December 2005	61	-	-	-	61
Reversal	(1)	-	-	-	(1)
Balance as of 31 December 2006	60	-	-	-	60
<b>Net book value as of 31 December 2004</b>	<b>4,785</b>	<b>365</b>	<b>26,830</b>	<b>9</b>	<b>31,989</b>
<b>Net book value as of 31 December 2005</b>	<b>4,706</b>	<b>334</b>	<b>27,051</b>	<b>155</b>	<b>32,246</b>
<b>Net book value as of 31 December 2006</b>	<b>4,617</b>	<b>303</b>	<b>25,500</b>	<b>2,474</b>	<b>32,894</b>

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**7. Property, plant and equipment (continued)**

The depreciation charge of the Group's and the Company's property, plant and equipment in 2006 amounts to LTL 8,680 thousand and LTL 5,765 thousand respectively (LTL 7,358 thousand and LTL 5,523 thousand in 2005). The respective amounts of LTL 8,065 thousand and LTL 5,535 thousand in 2006 (LTL 6,233 thousand and LTL 5,060 thousand in 2005) are included into cost of sales in the Group's and the Company's income statement. The remaining amounts are included into general and administrative expenses in the income statement and inventories in the balance sheet.

Property, plant and equipment of the Group and the Company with the net book value of LTL 34,359 thousand and LTL 18,802 thousand respectively as of 31 December 2006 (LTL 34,926 thousand and LTL 24,267 thousand as of 31 December 2005) was pledged to the bank as a collateral for the borrowings (Note 15).

Property, plant and equipment of the Group and the Company with the acquisition cost amounting to LTL 28,045 thousand and LTL 18,680 thousand respectively were fully depreciated as of 31 December 2006 (LTL 30,540 thousand and LTL 18,123 thousand respectively as of 31 December 2005), but were still in active use.

Additions of the Group and the Company in 2006 amounting to LTL 6,177 thousand and LTL 6,112 thousand respectively include assets acquired under finance lease (2005: nil).

Leased assets, where the Company and the Group is a lessee under finance lease comprised as follows as at 31 December:

	Group		Company	
	2006	2005	2006	2005
Cost – capitalised finance lease amount				
Vehicles and other property, plant and equipment	3,563	106	3,359	-
Construction in progress	1,452	-	1,452	-
	<u>5,015</u>	<u>106</u>	<u>4,811</u>	<u>-</u>
Accumulated depreciation				
Vehicles and other property, plant and equipment	(230)	(39)	(168)	-
Net book value	<u>4,785</u>	<u>67</u>	<u>4,643</u>	<u>-</u>

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**8. Investment property**

	<b>Group</b>	<b>Company</b>
<b>Cost:</b>		
Balance as of 1 January 2005	1,409	6,860
Transfer to property, plant and equipment (Note 7)	(48)	-
Balance as of 31 December 2005	1,361	6,860
Transfer from property, plant and equipment (Note 7)	5,499	-
Balance as of 31 December 2006	6,860	6,860
<b>Accumulated depreciation:</b>		
Balance as of 1 January 2005	305	806
Charge for the year	28	160
Transfer to property, plant and equipment (Note 7)	(7)	-
Balance as of 31 December 2005	326	966
Charge for the year	145	145
Transfer from property, plant and equipment (Note 7)	640	-
Balance as of 31 December 2006	1,111	1,111
<b>Impairment:</b>		
Balance as of 1 January 2005	109	814
Reversal of impairment	(5)	(18)
Balance as of 31 December 2005	104	796
Transfer from property, plant and equipment (Note 7)	692	-
Reversal of impairment	(698)	(698)
Balance as of 31 December 2006	98	98
<b>Net book value as of 31 December 2004</b>	<b>995</b>	<b>5,240</b>
<b>Net book value as of 31 December 2005</b>	<b>931</b>	<b>5,098</b>
<b>Net book value as of 31 December 2006</b>	<b>5,651</b>	<b>5,651</b>

Rental income and associated costs have been disclosed in Note 20.

The accumulated impairment of the investment property amounting to LTL 98 thousand as of 31 December 2006 (LTL 796 thousand as of 31 December 2005) reflects the reduction of the value of rented premises to its fair value less cost to sell. Fair value is defined as an amount, for which these assets could be exchanged between knowledgeable, willing parties in an arm's length transaction.

As a result of significant increase in real estate prices in certain locations during the year ended 31 December 2006, the Group and the Company reversed accumulated impairment losses on investment properties amounting to LTL 698 thousand.

Investment property was valued by independent valuers in 2003, subsequently no independent valuation was performed. In the opinion of management, the fair value of investment property approximates their net book value.

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**8. Investment property (continued)**

Investment property of the Company and the Group consists of buildings rented to related party UAB Utenos trikotažo prekyba and third parties under contractual commitments.

Investment property of the Group and the Company with the net book value of LTL 5,613 thousand as of 31 December 2006 (LTL 884 thousand and LTL 5,051 thousand respectively as of 31 December 2005) was pledged to the bank as a collateral for the borrowings (Note 15).

No material contractual obligations to purchase, construct, develop, repair or increase the investment property existed at the year-end.

**9. Investments into subsidiaries**

The Company's investments into subsidiaries as of 31 December can be specified as follows:

	<u>2006</u>	<u>2005</u>
<b>Cost of investments:</b>		
Balance as at 1 January	26,007	16,495
Shareholder's contributions to cover accumulated losses of UAB Utenos Trikotažo Prekyba	-	3,926
Additional acquisition of AB Šatrija shares (Note 26)	-	19
Acquisition of subsidiary OAO MTF Mrija (Note 26)	-	5,567
Disposal of investment into UAB Utenos Trikotažo Prekyba subgroup (Note 26)	<u>(15,265)</u>	<u>-</u>
Balance as at 31 December	10,742	26,007
<b>Impairment:</b>		
Balance as at 1 January	15,257	11,339
Impairment charge for the period	-	3,918
Reversal of accumulated impairment relating to investment into UAB Utenos Trikotažo Prekyba subgroup	<u>(15,257)</u>	<u>-</u>
Balance as at 31 December	<u>-</u>	<u>15,257</u>
<b>Carrying value of investments into subsidiaries as at 31 December</b>	<u><b>10,742</b></u>	<u><b>10,750</b></u>

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**10. Inventories**

	Group		Company	
	2006	2005	2006	2005
Raw materials	11,343	11,606	5,011	5,966
Work in progress	7,055	6,259	4,567	5,476
Finished goods	3,385	4,161	3,102	3,230
Goods for resale	190	3,101	-	-
	<u>21,973</u>	<u>25,127</u>	<u>12,680</u>	<u>14,672</u>
Net realisable value allowance at the beginning of the year	(1,249)	(1,311)	(295)	(150)
Change in net realisable value allowance	954	62	66	(145)
Net realisable value allowance at the end of the year	<u>(295)</u>	<u>(1,249)</u>	<u>(229)</u>	<u>(295)</u>
	<u>21,678</u>	<u>23,878</u>	<u>12,451</u>	<u>14,377</u>

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2006 amounted to LTL 230 thousand and LTL 167 thousand respectively (LTL 391 thousand and LTL 391 thousand as of 31 December 2005). Changes in the allowance for inventories in 2006 and 2005 have been included into general and administrative expenses in the Group's and the Company's income statement.

Inventories of the Company and the Group with the acquisition cost of LTL 10,000 thousand as of 31 December 2006 (LTL 10,000 thousand as of 31 December 2005) were pledged to the bank as a collateral for the bank borrowings (Note 15).

**11. Trade receivables**

	Group		Company	
	2006	2005	2006	2005
Trade receivables, gross	17,200	16,388	12,215	11,550
Realisable value allowance at the beginning of the year	(217)	(298)	-	-
Change in realisable value allowance	195	81	-	-
Realisable value allowance at the end of the year	<u>(22)</u>	<u>(217)</u>	<u>-</u>	<u>-</u>
	<u>17,178</u>	<u>16,171</u>	<u>12,215</u>	<u>11,550</u>

Changes in allowance for doubtful trade receivables for the year 2006 and 2005 have been included into general and administrative expenses in the Group's and the Company's income statements.

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**11. Trade receivables (continued)**

The Company's trade accounts receivable amounting to LTL 12,215 thousand as of 31 December 2006 (LTL 11,550 thousand as of 31 December 2005) are insured against debtors' insolvency with insurance companies Atradius Sweden and UAB Euler Hermes Services Baltic for a maximum recoverable amount of LTL 12,132 thousand (LTL 9,352 thousand as of 31 December 2005).

The Group's trade accounts receivable amounting to LTL 17,178 thousand as of 31 December 2006 (LTL 16,171 thousand as of 31 December 2005) are insured against debtors' insolvency with insurance companies Atradius Sweden, Euler Hermes Kreditversicherung and UAB Euler Hermes Services Baltic for a maximum recoverable amount of LTL 39,332 thousand (LTL 37,352 thousand as of 31 December 2005).

**12. Cash and cash equivalents**

	Group		Company	
	2006	2005	2006	2005
Cash in bank and on hand	783	1,019	231	140
Deposits with a term of less than three months	743	771	642	751
	<u>1,526</u>	<u>1,790</u>	<u>873</u>	<u>891</u>

On 16 January 2003 the Company signed an agreement with AB bankas Hansabankas valid until 16 January 2023 for overnight deposits. The annual interest rate of the overnight deposit is 0.6%. The outstanding balance of the overnight deposit amounted to LTL 642 thousand as of 31 December 2006 (as of 31 December 2005 – LTL 751 thousand).

Groups' deposits balance as at 31 December 2006 includes a deposit of UAH 193 thousand (equivalent of LTL 101 thousand) which was placed with the bank as a guaranty for VAT payable. Annual Interest rate on this deposit is 5 %, contractual maturity - 25 January 2007.

The Company's all cash inflows into its accounts in AB bankas Hansabankas are pledged to the bank as collateral for the loan (Note 15).

As of 31 December 2006 and 2005 the Group and the Company had no other restrictions for the use of cash and cash equivalents.

**13. Share capital**

As at 31 December 2006 and 2005, the share capital comprised 19,834,442 ordinary registered shares with par value of LTL 1 each. As of 31 December 2006 and 2005 all the shares are fully paid.

Subsidiaries did not hold any shares of the Company as of 31 December 2006 and 2005. The Company did not hold its own shares as of 31 December 2006 and 2005.

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**14. Reserves**

***Other reserves***

The outstanding balances of Company's reserves as of 31 December 2006 and 2005 comprised of legal reserve.

***Reserve for acquisition of own shares***

On 20 April 2004 the shareholders of the Company decided to form a reserve amounting to LTL 10,000 thousand for acquisition of 1,983,444 own shares. According to the Law on Stock Companies of the Republic of Lithuania, the reserve must be used within 18-month term. The reserve was not used and on 30 March 2005 the shareholders decided to transfer the reserve balance to the retained earnings.

***Profit distribution***

On 30 March 2005 the Company's Shareholders' meeting decided to pay out LTL 17,851 thousand in dividends. On 20 April 2006 the Company's Shareholders' meeting decided to pay out LTL 3,967 thousand in dividends.

On the date of the issue of these financial statements the Company had not yet prepared a draft of profit distribution for 2006.

**15. Borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b><i>Current</i></b>				
Short-term bank borrowings	3,720	1,267	870	922
Current portion of long-term bank borrowings	13,694	11,048	8,908	8,908
Finance lease liabilities	893	18	871	-
	<u>18,307</u>	<u>12,333</u>	<u>10,649</u>	<u>9,830</u>
<b><i>Non – current</i></b>				
Long-term bank borrowings	26,370	25,892	19,039	23,947
Finance lease liabilities	5,284	-	5,241	-
	<u>31,654</u>	<u>25,892</u>	<u>24,280</u>	<u>23,947</u>
<b>Total borrowings</b>	<u>49,961</u>	<u>38,225</u>	<u>34,929</u>	<u>33,777</u>

Bank borrowings are secured by the property plant and equipment (Note 7), investment property (Note 8), inventories (Note 10) and future cash inflows into certain bank accounts (Note 12).

The fulfilment of finance lease liabilities is substantially secured since the title to assets acquired under finance lease automatically reverts to the lessor in the event of default.



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**15. Borrowings (continued)**

The carrying amounts of borrowings as at 31 December are denominated in following currencies:

	Group		Company	
	2006	2005	2006	2005
UAH	36	439	-	-
EUR	49,055	36,846	34,059	32,855
LTL	870	940	870	922
	<u>49,961</u>	<u>38,225</u>	<u>34,929</u>	<u>33,777</u>

The weighted average interest rates (%) were as follows as at 31 December:

	Group		Company	
	2006	2005	2006	2005
Long-term bank borrowings	5.11	3.21	4.36	3.18
Short-term bank borrowings	6.91	6.69	3.45	4.71
Finance lease liabilities	4.81	4.20	4.81	-

Interest rate of majority of the borrowings is based on market interest rate, therefore, in the opinion of management, carrying amount of borrowings approximates to its fair value.

The exposure of the borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet dates are as follows:

	Group		Company	
	2006	2005	2006	2005
Within 6 months or less	49,880	37,786	34,929	33,777

Contractual maturity terms of long-term borrowings (excluding finance lease liabilities):

	Group		Company	
	2006	2005	2006	2005
Between 1 and 2 years	9,903	10,836	8,018	8,908
Between 2 and 5 years	16,467	15,056	11,021	15,039
	<u>26,370</u>	<u>25,892</u>	<u>19,039</u>	<u>23,947</u>

As at 31 December 2006, the Group was not compliant with requirements for (1) capital ratio in the subsidiary OAO MTF Mrija and (2) gross margin on certain inter-company transactions set out as restrictive covenants in two of bank borrowing agreements. The management of the Group does not expect that the bank will take any restrictive actions and, therefore, bank borrowings received under this agreement with contractual maturity over 1 year totalling EUR 2,099 thousand (equivalent to LTL 7,331 thousand) as at 31 December 2006 were not reclassified to current borrowings in these financial statements.

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**15. Borrowings (continued)**

Finance lease liabilities – minimum lease payments:

	Group		Company	
	2006	2005	2006	2005
Not later than 1 year	1,023	19	1,000	-
After 1 year but not later than 5 years	5,106	-	5,063	-
After 5 years	934	-	934	-
	<u>7,063</u>	<u>19</u>	<u>6,997</u>	<u>-</u>
Future finance lease charges	(886)	(1)	(885)	-
Present value of finance lease liabilities	<u>6,177</u>	<u>18</u>	<u>6,112</u>	<u>-</u>

Present value of finance lease liabilities:

Not later than 1 year	893	18	871	-
After 1 year but not later than 5 years	4,405	-	4,362	-
After 5 years	879	-	879	-
	<u>6,177</u>	<u>18</u>	<u>6,112</u>	<u>-</u>

**16. Accrued expenses and other current liabilities**

	Group		Company	
	2006	2005	2006	2005
Payables for services and non-current assets	3,361	1,875	3,289	1,688
Wages, salaries and social security	2,204	2,362	1,534	1,361
Vacation pay accrual	2,449	2,297	1,846	1,198
Bonuses for employees	528	144	528	144
Other liabilities	641	1,113	209	201
	<u>9,183</u>	<u>7,791</u>	<u>7,406</u>	<u>4,592</u>

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**17. Revenue**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Sale of goods	157,595	170,944	121,919	120,781
Sewing services	5,022	1,720	-	-
Sale of materials	657	663	2,891	642
	<u>163,274</u>	<u>173,327</u>	<u>124,810</u>	<u>121,423</u>

**18. Cost of sales**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Materials	63,237	62,709	42,919	42,854
Wages and salaries	35,170	34,322	24,796	25,310
Other overhead expenses	39,522	38,196	32,326	27,345
Cost of materials sold	413	725	2,747	635
	<u>138,342</u>	<u>135,952</u>	<u>102,788</u>	<u>96,144</u>

**19. Selling, general and administrative expenses**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Selling expenses				
Maintenance costs of retail outlets	40	2,989	-	-
Wages, salaries and social security	1,989	4,578	1,425	1,244
Other selling expenses	2,137	3,586	1,592	2,123
Total selling expenses	4,166	11,153	3,017	3,367
General and administrative expenses				
Wages, salaries and social security	5,668	5,812	3,556	3,708
Communications and consulting services	2,813	3,495	2,200	2,296
Taxes, other than income tax	1,321	1,301	1,206	865
Reversal of impairment of property, plant and equipment and investment property	(698)	(54)	(698)	(39)
Depreciation and amortisation	503	712	219	415
Bonuses	300	360	300	360
Business trips	210	148	77	77
Charity and sponsorship	213	157	195	133
Other	4,222	4,726	2,430	2,126
Total general and administrative expenses	14,552	16,657	9,485	9,941
	<u>18,718</u>	<u>27,810</u>	<u>12,502</u>	<u>13,308</u>

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**20. Other operating income (expenses), net**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Dividends from subsidiaries	-	-	-	5,832
Impairment of investment (Note 9)	-	-	-	(3,918)
Excess of acquirer's interest in the net assets (Note 26)	-	457	-	-
Gain on disposal of interest in subsidiary (Note 26)	436	-	-	-
Gain on disposal of property, plant and equipment	705	964	220	344
Income from rent	719	345	646	646
Expenses of rent	(281)	(459)	(235)	(392)
Other income (expenses), net	39	(39)	37	94
	<u>1,618</u>	<u>1,268</u>	<u>668</u>	<u>2,606</u>

**21. Finance cost, net**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Foreign currency exchange gain (loss), net	(1,144)	243	(37)	(15)
Interest expenses	(2,150)	(1,376)	(1,416)	(1,090)
Prompt payment discounts given	(330)	(307)	(322)	(361)
Interest income	176	64	121	59
Prompt payment discounts received	-	308	-	158
Late payment interest received	45	12	6	-
	<u>(3,403)</u>	<u>(1,056)</u>	<u>(1,648)</u>	<u>(1,249)</u>

**22. Employee benefit expense**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Wages and salaries	33,476	36,768	22,761	23,634
Social security costs	10,467	11,412	7,016	7,288
	<u>43,943</u>	<u>48,180</u>	<u>29,777</u>	<u>30,922</u>

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**23. Income tax**

Components of the income tax expense:

	Group		Company	
	2006	2005	2006	2005
Current income tax expense	(1,958)	(2,024)	(1,833)	(1,969)
Change in deferred income tax	(383)	(162)	(261)	(56)
Reimbursed income tax on dividends	6	84	6	84
Income tax expenses recorded in income statement	<u>(2,335)</u>	<u>(2,102)</u>	<u>(2,088)</u>	<u>(1,941)</u>

There are no material income tax consequences for the Company associated with the payment of dividends to its shareholders.

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre tax income as follows:

	Group		Company	
	2006	2005	2006	2005
Income tax expenses computed at 19% in 2006 (15% in 2005)	(841)	(1,467)	(1,623)	(1,999)
Effect of different tax rate applicable to Ukrainian subsidiaries	316	164	-	-
Reimbursed income tax on dividends	6	84	6	84
Unrecognised deferred tax assets	(1,316)	(419)	-	(217)
Change in income tax rate	(117)	277	(112)	217
Tax non-deductible expenses	(383)	(741)	(359)	(26)
Income tax expenses reported in the income statement	<u>(2,335)</u>	<u>(2,102)</u>	<u>(2,088)</u>	<u>(1,941)</u>

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**23. Income tax (continued)**

The movement in deferred income tax account was as follows:

	Group		Company	
	2006	2005	2006	2005
At beginning of year	811	973	467	523
Income statement charge	(383)	(162)	(261)	(56)
At end of year	428	811	206	467

In 2006 deferred income tax asset and liability related to the entities operating in Lithuania were accounted at 15 - 18% rate (15 – 19% rate in 2005), depending on the estimated timing of the realization of temporary differences. The Group had no information about taxable losses and other temporary differences for calculation of deferred tax position of its subsidiary OAO MTF Mrija as of 31 December 2006 and for the year then ended, therefore, it is not reflected in these consolidated financial statements. (Deferred income tax asset and liability related to the entities operating in Ukraine was calculated at 25% rate in 2005).

The movement in the Group's and the Company's deferred tax assets and liabilities (prior to and after offsetting the balances) during the period was as follows:

Group	Credited (debited) to income statement		Credited (debited) to income statement		2006
	2004	2005	2005	2006	
<b>Deferred tax assets</b>					
Tax loss carry forwards	57	-	-	-	-
Inventories	108	92	(39)	53	53
Receivables	184	122	(116)	6	6
Property, plant and equipment and investment property	583	566	(247)	319	319
Accrued charges	291	359	(158)	201	201
Advances received	-	290	(290)	-	-
	1,223	1,429	(850)	579	579
<b>Deferred tax liabilities</b>					
Goodwill	(6)	(65)	(21)	(86)	(86)
Property, plant and equipment	(244)	(553)	488	(65)	(65)
	(250)	(618)	467	(151)	(151)
<b>Deferred tax asset, net</b>	973	811	(383)	428	428

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**23. Income tax (continued)**

Company	Credited (debited) to income statement		Credited (debited) to income statement		2006
	2004	2005	2005	2006	
<b>Deferred tax assets</b>					
Inventories	23	11	34	7	41
Receivables	60	(60)	-	-	-
Property, plant and equipment and investment property	224	-	224	(187)	37
Accrued charges	216	(7)	209	(81)	128
	<u>523</u>	<u>(56)</u>	<u>467</u>	<u>(261)</u>	<u>206</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	2006	2005	2006	2005
Deferred tax assets:				
Deferred tax asset to be recovered after more than 12 months	319	566	37	224
Deferred tax asset to be recovered within 12 months	260	863	169	243
	<u>579</u>	<u>1,429</u>	<u>206</u>	<u>467</u>
Deferred tax liabilities:				
Deferred tax liability to be recovered after more than 12 months	(151)	(618)	-	-
Deferred tax liability to be recovered within 12 months	-	-	-	-
	<u>(151)</u>	<u>(618)</u>	<u>-</u>	<u>-</u>
	<u>428</u>	<u>811</u>	<u>206</u>	<u>467</u>

The Group's tax losses to be carried forward against future taxable income amounting to LTL 9,371 thousand as of 31 December 2005 were generated in subsidiary UAB Utenos trikotažo prekyba which was disposed in 2006. No deferred tax asset was recognised in respect of these losses due to uncertainties related to its recoverability. In addition, deferred tax asset of LTL 88 thousand as of 31 December 2005 was not recognised for other deductible temporary differences relating to inventories, accounts receivable and accruals of this subsidiary.

The Company did not recognise deferred income tax asset of LTL 1,032 thousand for an impairment of the investment into subsidiary as at 31 December 2005 as there was an uncertainty related to the Company's ability to earn sufficient future taxable profits from investing activity necessary to realise this asset.

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**24. Earnings per share**

Basic earnings per share reflect the Group's net profit, divided by the outstanding number of shares. Calculation of the basic earnings per share is presented below:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
Net profit, attributable to the equity holders of the Company	2,374	7,748
Weighted average number of shares outstanding (in thousand items)	<u>19,834</u>	<u>19,834</u>
Basic and diluted earnings per share (in LTL)	<u>0.12</u>	<u>0.39</u>

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

**25. Dividends per share**

	<b>2006*</b>	<b>2005*</b>
Approved dividends	3,967	17,851
Weighted average number of shares (in thousand items)	<u>19,834</u>	<u>19,834</u>
Approved dividends per share (LTL)	<u>0.20</u>	<u>0.90</u>

\* The year when the dividends are approved.



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**26. Business combinations and disposals**

**(i) Acquisitions**

There were no acquisitions in the year ended 31 December 2006.

On 25 April 2005 the Company additionally purchased 0.33% of AB Šatrija shares from minority shareholders for LTL 19 thousand. The fair value of the acquired net asset was LTL 53 thousand at the time of acquisition and excess of acquirer's interest in the net assets of LTL 34 thousand resulting from the acquisition of minority was recorded in other income in the Group's income statement for the year ended 31 December 2005.

The Company acquired 67% of OAO MTF Mrija in June 2005. Assets and liabilities of subsidiary acquired as of 30 June 2005 (the date close to the acquisition date) were as follows:

	<u>30 June 2005</u>
Non-current assets	3,790
Current assets	963
<b>Total assets</b>	<b><u>4,753</u></b>
Equity	2,641
Non-current liabilities and subsidies	236
Current liabilities	1,876
<b>Total liabilities and shareholders equity</b>	<b><u>4,753</u></b>

The fair value of the net asset acquired was LTL 1,769 thousand at the date of acquisition. The fair value of the identifiable assets and liabilities recognised on acquisition approximated their carrying value. The Company paid LTL 2,998 thousand for 67% of the shares. Cash balance of OAO MTF Mrija amounted to LTL 30 thousand on 30 June 2005.

The difference between the amount paid and the fair value of the acquired assets and liabilities assumed amounting to LTL 1,229 thousand was accounted as goodwill:

	<u>30 June 2005</u>
Fair value of acquired assets, liabilities and contingent liabilities	1,769
Goodwill	1,229
<b>Amount of cash paid</b>	<b><u>2,998</u></b>
Cash acquired	(30)
<b>Amount of cash paid, net</b>	<b><u>2,968</u></b>

The goodwill is arising due to expected synergies from the acquisition and other benefits related to market imperfections.

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**26. Business combinations and disposals (continued)**

Subsequent to this acquisition, the Company acquired additional 24.85% shares of OAO MTF Mrija from the minority shareholders in the new emission of shares made by subsidiary. The total cost paid for the new emission was LTL 2,569 thousand, out of which LTL 736 thousand were paid for minority shares for the net assets (at fair value) of LTL 1,159 thousand. Excess of acquirer's interest in the net assets of LTL 423 thousand resulting from the acquisition of minority was recorded in other income in the Group's income statement for the year ended 31 December 2005.

OAO MTF Mrija has earned a loss of LTL 1,683 thousand since the acquisition date to 31 December 2005. The revenue and net result of the Group for the year ended 31 December 2005 as though the acquisition date for this business combination had been 1 January 2005 is not presented as no audited information on the subsidiary's activities before the date of acquisition is available.

**(ii) Disposals**

In January 2006 the subsidiary UAB Utenos Trikotažo Prekyba was sold to the shareholder of the Company UAB Koncernas SBA for LTL 9 thousand. Accounts of UAB Utenos Trikotažo Prekyba included in the consolidated financial statements for the year ended 31 December 2005 were as follows:

	<u>31 December 2005</u>
Current assets	4,408
Long-term assets	1,371
Current liabilities	<u>(6,206)</u>
<b>Net liabilities</b>	<b><u>(427)</u></b>

	<u>Year ended 31 December 2005</u>
Sales revenue	21,272
Net loss	<u>(923)</u>

Gain on disposal was calculated as follows:

Net liabilities	427
Disposal consideration received	<u>9</u>
<b>Gain on disposal (Note 20)</b>	<b><u>436</u></b>

Cash outflow on disposal was as follows:

Cash in subsidiary disposed	(516)
Cash consideration received	<u>9</u>
<b>Cash outflow on disposal, net</b>	<b><u>(507)</u></b>

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**27. Supplemental cash flow information**

The principle non-cash transactions were as follows:

	Group		Company	
	2006	2005	2006	2005
Non-monetary investing activity:				
Investment into subsidiary set-off against receivable from the subsidiary (Note 26)	-	-	-	3,926
Acquisition of property, plant and equipment under finance lease (Note 7)	6,177	-	6,112	-

**28. Related party transactions**

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

<b>Related party</b>	<b>Description of relation</b>
A. Martinkevičius	Ultimate controlling individual
UAB Koncernas SBA	Ultimate parent company, exercising control through majority of Board members
The association Pramonės ir Marketingo Biznio Centras	Director of the association is the general manager of the Company. The Company is a member of the association.
SBA group companies	Koncernas SBA UAB subsidiaries
Company's management	Directors, Board members and their family members

In addition, to the related parties of the Group, subsidiaries of the Company are treated as related parties of the Company.

Related party transactions are priced at cost plus certain margin.

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**28. Related party transactions (continued)**

The Group's and the Company's related party transactions in 2006 and 2005 are as follows:

	Group		Company	
	2006	2005	2006	2005
<b>Sales of goods and services</b>				
<i>To subsidiaries of the Company:</i>				
UAB Gotija	-	-	372	273
AB Šatrija	-	-	14	38
OAo MTF Mrija	-	-	2,610	72
UAB Utenos trikotažo prekyba	-	-	-	9,473
<i>To SBA group companies:</i>				
UAB Utenos trikotažo prekyba	11,529	-	10,395	-
AB Klaipėdos baldai	60	55	-	11
AB Karigė	2	-	-	-
<i>To ultimate parent company:</i>				
UAB Koncernas SBA	7	48	-	-
	<u>11,598</u>	<u>103</u>	<u>13,391</u>	<u>9,867</u>

	Group		Company	
	2006	2005	2006	2005
<b>Sales of property, plant and equipment</b>				
<i>To subsidiaries of the Company:</i>				
OAo MTF Mrija	-	-	1,144	1,594
	<u>-</u>	<u>-</u>	<u>1,144</u>	<u>1,594</u>

**Disposals of investments**

Disposal of investment in subsidiary UAB Utenos trikotažo prekyba to related parties is disclosed in Notes 9 and 26.

	Group		Company	
	2006	2005	2006	2005
<b>Interest received</b>				
<i>From subsidiaries of the Company:</i>				
UAB Utenos trikotažo prekyba	-	-	-	48
OAo MTF Mrija	-	-	2	-
<i>From SBA group companies:</i>				
UAB Utenos trikotažo prekyba	140	-	107	-
	<u>140</u>	<u>-</u>	<u>109</u>	<u>48</u>

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**28. Related party transactions (continued)**

	Group		Company	
	2006	2005	2006	2005
<b>Purchases of goods and services</b>				
<i>From subsidiaries of the Company:</i>				
AB Šatrija	-	-	21	18
OAo MTF Mrija	-	-	8,129	1,720
UAB Utenos trikotažo prekyba	-	-	-	57
<i>From SBA group companies:</i>				
UAB Utenos trikotažo prekyba	343	-	37	-
AB Klaipėdos baldai	17	38	-	-
UAB Klaipėdos baldų prekyba	-	26	-	17
UAB Pastatų idėjų įgyvendinimas	120	60	120	60
<i>From other related parties:</i>				
Pramonės ir Marketingo Biznio Centras	251	246	251	246
<i>From ultimate parent company:</i>				
UAB Koncernas SBA	2,317	2,856	1,973	1,962
	<u>3,048</u>	<u>3,226</u>	<u>10,531</u>	<u>4,080</u>
	Group		Company	
	2006	2005	2006	2005
<b>Purchases of property, plant and equipment</b>				
<i>From subsidiaries of the Company:</i>				
AB Šatrija	-	-	3	13
<i>From ultimate parent company:</i>				
UAB Koncernas SBA	4	-	4	-
	<u>4</u>	<u>-</u>	<u>7</u>	<u>13</u>
	Group		Company	
	2006	2005	2006	2005
<b>Amounts receivable within one year (including prepayments and loans)</b>				
<i>From subsidiaries of the Company:</i>				
UAB Utenos Trikotažo Prekyba	-	-	-	3,158
OAo MTF Mrija	-	-	7,302	2,804
AB Šatrija	-	-	8	8
UAB Gotija	-	-	129	30
<i>From SBA group companies:</i>				
UAB Utenos trikotažo prekyba	6,542	-	5,354	-
AB Klaipėdos baldai	-	84	-	-
UAB Karigė	4	1	-	-
<i>From ultimate parent company:</i>				
UAB Koncernas SBA	-	6	-	6
	<u>6,546</u>	<u>91</u>	<u>12,792</u>	<u>6,006</u>

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**28. Related party transactions (continued)**

	Group		Company	
	2006	2005	2006	2005
<b>Amounts receivable after one year</b>				
<i>From ultimate parent company:</i>				
Loan to UAB Koncernas SBA	1,100	1,100	-	-
Less: current year portion of the loan	(50)	-		
	<u>1,050</u>	<u>1,100</u>	<u>-</u>	<u>-</u>

Loan provided to UAB Koncernas SBA fully repayable in 2008. The repayment of the loan is guaranteed by UAB Klaipėdos Baldų Prekyba. Annual interest rate on the loan is 4 per cent. In the opinion of management, fair value of this loan approximate to its carrying value.

	Group		Company	
	2006	2005	2006	2005
<b>Amounts payable within one year</b>				
<i>To subsidiaries of the Company:</i>				
AB Šatrija	-	-	9	-
<i>To SBA group companies:</i>				
AB Klaipėdos baldų prekyba	-	1	-	1
UAB Pastatų idėjų įgyvendinimas	10	60	10	60
<i>To other related parties:</i>				
Pramonės ir Marketingo Biznio Centras	251	182	251	182
<i>To ultimate parent company:</i>				
UAB Koncernas SBA	197	186	82	151
	<u>458</u>	<u>429</u>	<u>352</u>	<u>394</u>

	Group		Company	
	2006	2005	2006	2005
<b>Key management compensation</b>				
Remuneration of management	2,911	2,749	1,687	1,610
Bonuses to the Board	300	360	300	360
	<u>3,211</u>	<u>3,109</u>	<u>1,987</u>	<u>1,970</u>

In 2006 and 2005 the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued. Short term interest free loans to the management of the Group amounted to UAH 250 thousand (equivalent to LTL 128 thousand) as at 31 December 2006 (2005: nil), management of the Group did not received any guarantees, no other payments of property transfers were made or accrued for in 2006 and 2005.

**Guarantees issued**

Guarantees issued on behalf of related parties are disclosed in Note 29.

**29. Contingent liabilities and commitments**

***Guarantees issued***

The Group has no guarantees issued for the obligations of other parties.

The Company has an agreement with the joint stock bank OAO SEB bank based on which it has issued a guarantee for the amount of EUR 3.5 million (equivalent to LTL 12,085 thousand as at 31 December 2006) on behalf of its subsidiary OAO MTF Mrija to secure its borrowings from the above-mentioned bank.

The Company's management believes that OAO MTF Mrija will meet its obligations to the bank.

***Commitments***

As of 31 December 2006 the Group and the Company had no significant commitments for acquisition of property, plant and equipment or intangible assets. (Contractual commitments of the Group to acquire property, plant and equipment amounted to LTL 2,613 thousand as of 31 December 2005; no significant contractual commitments of the Company to acquire property, plant and equipment or intangible assets existed as at 31 December 2005).



## Utenos Trikotažas AB Letter to Shareholders

Dear Shareholders,

Last year was a challenging year for the Company. One of the most important goals, i.e. to retain our major existing customers and find new ones, was successfully achieved. In 2006, the Company retained its leadership in the knit-wear production market in Lithuania as one of the most modern companies in East and Central Europe.

Utenos Trikotažas AB retained its position earning LTL 6,452 thousand in net profit. Total sales amounted to LTL 124,810 thousand. Consolidated net profit per share was LTL 0.12. The Company has been paying solid dividends to its shareholders for eight years running.

In 2006, the Company had on average 999 employees. Total sales per employee amounted to LTL 124,935. Net profit per employee was LTL 6,458.

The most important event during the Company's lifetime was the implementation of a full manufacturing process in its subsidiary in Ukraine. Investments in OAO MTF Mrija reached LTL 11 million in 2006. Personnel recruitment and training processes were carried out, manufacturing of a full product was started, business contacts were made with the sewing companies in Ukraine. During 2006, sewing services rendered in Ukraine accounted for 26.2 per cent and 548 thousand items of full products were manufactured at this subsidiary.

A significant progress was achieved in the Company's base unit located in Utena, where its technological capacities were subject to additional improvements. The Company designated LTL 6,560.7 thousand for facility renovation. The investments were mostly focused on the following: sewing section – two knitting machines were purchased, which can produce unlimited pattern striped knit-wear; decoration section – state-of-the-art dryer compactor, two dyeing machines, and laboratory dyeing station were purchased; cutting section – a new automatic cutting table of 2.20 m in width with a head was purchased.

The installation of the Company's resource management information system AXAPTA is consistently continued, which will enable the Company to plan and organise its manufacturing process more flexibly.

Another important event for the Company was the implementation of corporate social responsibility standard SA8000. To date, Utenos Trikotažas AB is the first and only company in Lithuania, which has implemented this standard.

Following the implementation of this standard, we undertake social responsibility and all additional commitments to improve our business practice, introduce modern human resource management technologies, use natural resource saving technologies, and materials and manufacturing processes not harmful to human health.

The progress achieved by us and our contribution in local economy development were appreciated by the President of the Republic of Lithuania, who awarded the Lithuanian Export Prize to Utenos Trikotažas AB for its sales abroad in 2006.

The year 2006 was a special year for the Utenos Trikotažas AB team in terms that it highlighted our strengths – we noted how much we are able to achieve as a united team in pursuing for common goals and facing together the challenges.

For me it is a great pleasure and honour to meet the Company's 40th anniversary as a modern, socially responsible company highly valued by local and foreign partners, as well as its shareholders, and a strong team of specialists and workers.

Regina Sajienė  
Managing Director of Utenos Trikotažas AB  
Member of the Board of Directors





## INTRODUCTION

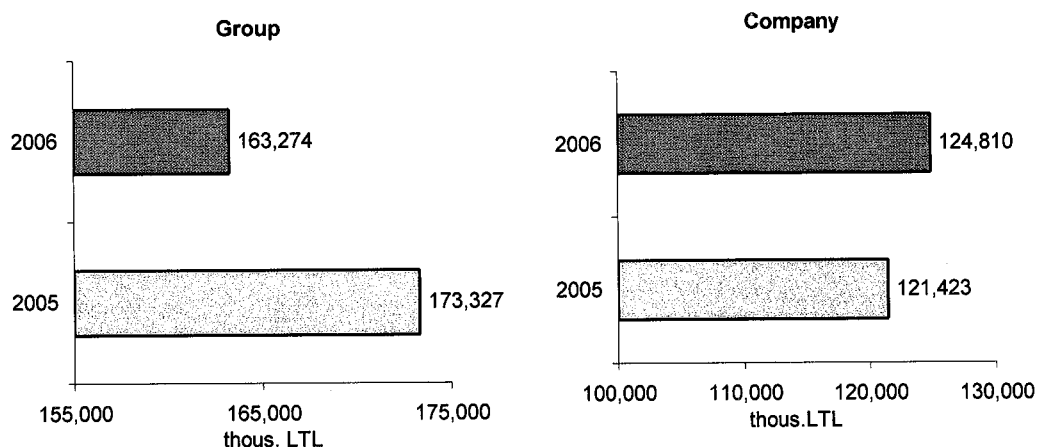
Company name	Utenos Trikotažas
Legal form	Public company
Head office address	Basanavičiaus g. 122, LT28214, Utena
Legal entity's code	183709468
VAT payer's code	LT837094610
Authorised share capital	LTL 19,834,442

## ANALYSIS OF FINANCIAL AND NON-FINANCIAL PERFORMANCE RESULTS, AND INFORMATION RELATED TO ENVIRONMENT AND PERSONNEL ISSUES

### 1.1. Trade

In 2006, the Company's total sales reached LTL 124.8 million. Trade volume increased by LTL 3.4 million or 2.8 per cent as compared to 2005. The Company's exports to Western Europe accounted for 88 per cent, whereas sales in Lithuania accounted for 12 per cent of total production.

In 2006, total sales of goods and services of Utenos Trikotažas AB group (hereinafter "the Group") amounted to LTL 163.3 million. The Group's exports accounted for 87 per cent, whereas sales in Lithuania accounted for 13 per cent of total production.

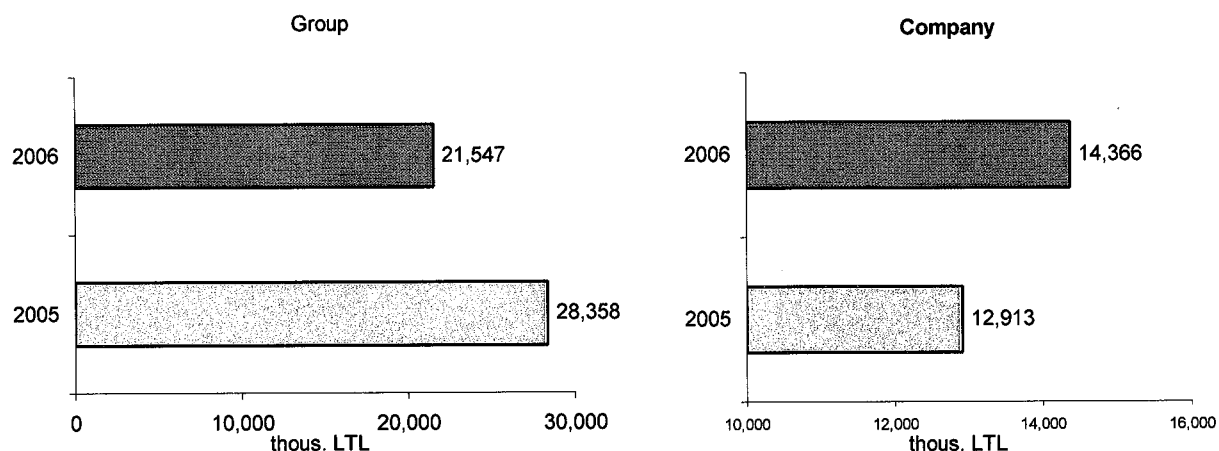




### Lithuania

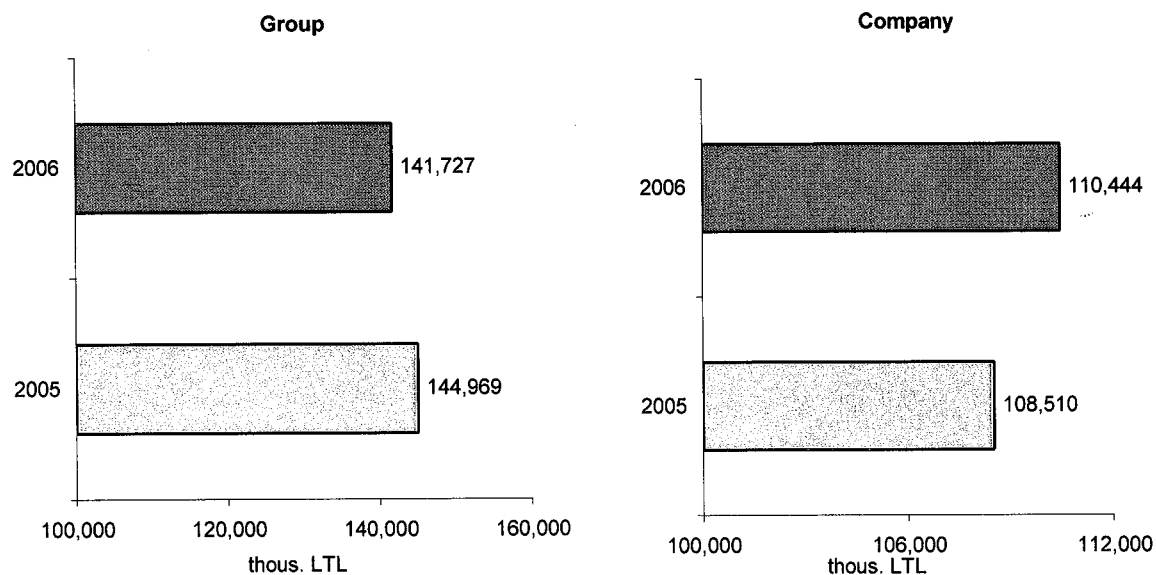
In 2006, the Company sold 1.6 million knit-wear items in Lithuania totalling LTL 14.4 million. The sales in Lithuania increased by LTL 1.5 million or 11.3 per cent.

In 2006, the Group's sales in Lithuania and other Baltic countries amounted to LTL 21.5 million, which is less by LTL 6.8 million as compared to 2005.



### Export

In 2006, the Company exported 10.9 million kit-wear items totalling LTL 110.4 million. The Company's exports increased by LTL 1.9 million or 1.8 per cent. Large retail chains from Western Europe remained as the major customers of the Company. In 2006, the Group's exports to Western Europe and other regions amounted to LTL 141.7 million, which is less by LTL 3.2 million as compared to 2005.



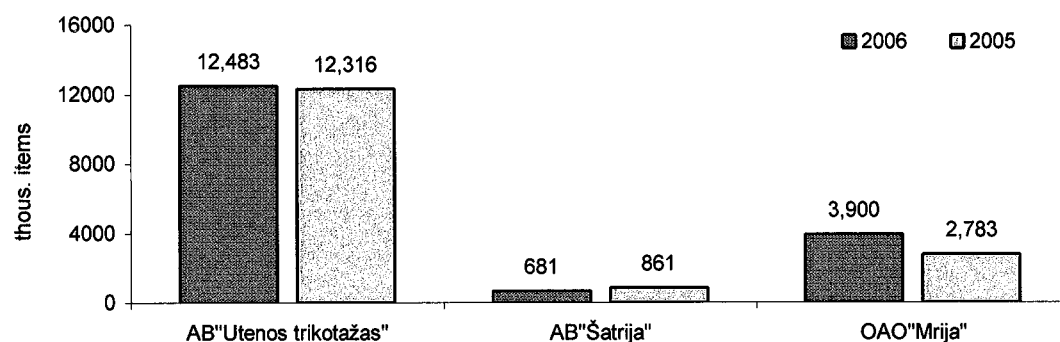


## 1.2. Production

In 2006, the Company produced 12.5 million knit-wear items. The Company's subcontractors (including the company in Ukraine) produced 8.4 million knit-wear items or 68 per cent of total production volume. The Company's production output increased by 3.5 per cent.

In 2006, Šatrija AB produced 0.681 million sewn items. Šatrija AB subcontractors produced 0.392 million sewn items or 57.6 per cent of total production volume. Production output of Šatrija AB increased by 43 per cent.

In 2006, OAO MTF Mrija produced 3.9 million items, 548 thousand items whereof represent the items produced during full manufacturing cycle. OAO MTF Mrija subcontractors in Ukraine produced 542 thousand items.



## 1.3. Personnel

In 2006, the Company's average number of employees was 999, and the Group's average number of employees was 1,969. As a result of a more active use of services rendered by the Lithuanian subcontractors and OAO MTF Mrija, the Company's average number of employees decreased by 66 over the year. In 2006, workers comprised 87.3 per cent, whereas managers and specialists comprised 12.7 per cent of all Company's employees.

In 2006, one employee of the Company earned on average LTL 1,858 or EUR 538 per month, wherein an average worker earned LTL 1,444 or EUR 418, and an average specialist and manager earned LTL 4,684 or EUR 1,357. In 2006, one employee of the Group earned on average LTL 1,413 or EUR 409 per month, wherein an average worker earned LTL 1,101 or EUR 319, and an average specialist and manager earned LTL 3,425 or EUR 992.

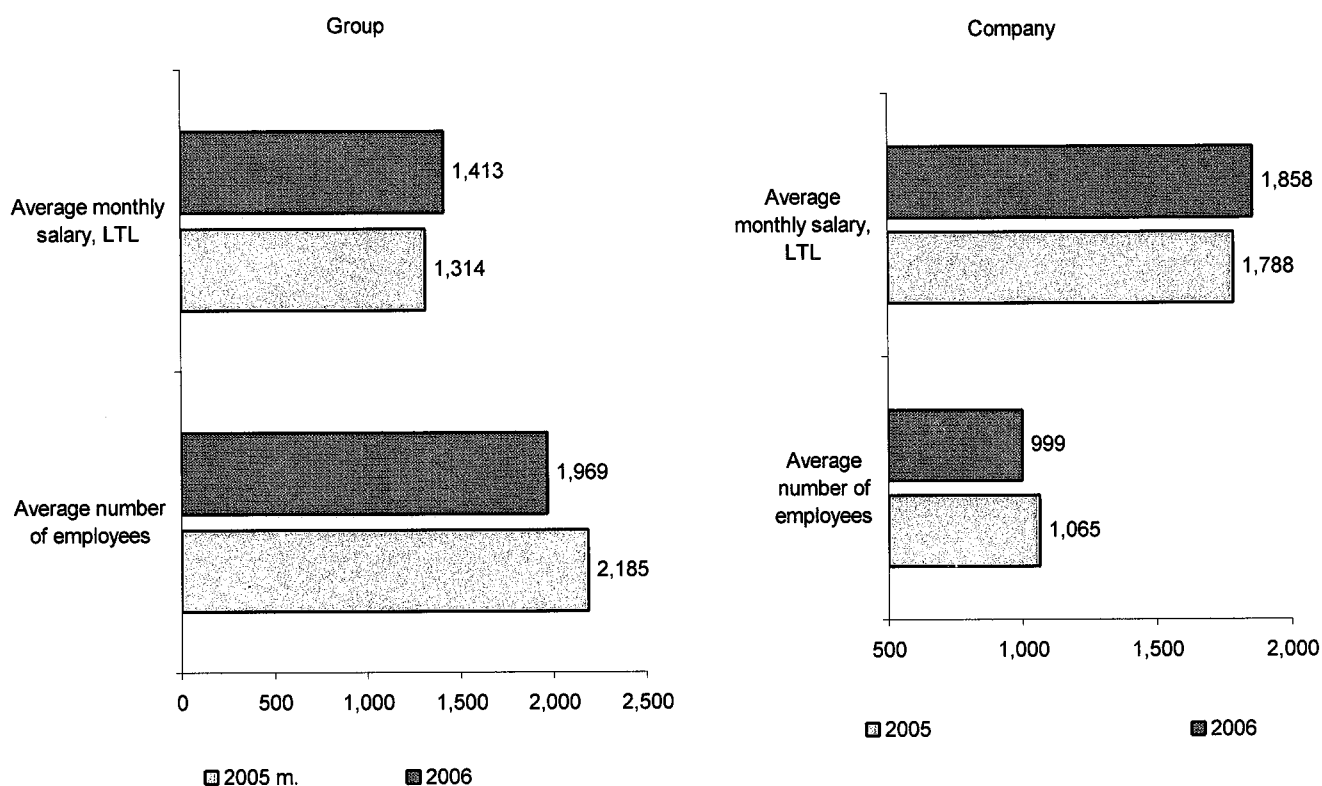
In 2006, production output of one employee of the Company as measured by sales increased by 3.5 per cent, and the average monthly salary increased by 3.9 per cent. Inflation rate in Lithuania was 3.9 per cent in 2006.

### Average number of employees and payroll expenses

	Group		Company	
	2006	2005	2006	2005
Average number of employees	1,969	2,185	999	1,065
Payroll expenses, excluding social security contributions, thous. LTL	33,476	36,768	22,761	23,634
Average monthly salary of employees, LTL	1,413	1,314	1,858	1,788
Average monthly salary of specialists, LTL	3,425	3,250	4,684	4,536
Average monthly salary of workers, LTL	1,101	1,044	1,444	1,424

In 2006, the Company paid out LTL 46 thousand in severance pay to employees who terminated employment with the Company, and LTL 65.4 thousand in benefits, LTL 50.6 thousand whereof represent death benefits.

In 2006, the Company's personnel training expenses amounted to LTL 106.0 thousand.



#### 1.4. Investments

In 2006, the Group's investments in new equipment and technologies amounted to LTL 19.7 million.

In 2006, the Company's investments in equipment and information technology amounted to LTL 7.6 million.

In the knitting section, 2 new knitting machines, sorting machines for roll and sheet materials, yarn-winding equipment, thread feeding device valued at LTL 1.5 million were put into operation.

In the decoration section, yarn dyeing equipment, compactor, print-works machine, chemical and dye processing-dosage station and other special equipment valued at LTL 2.7 million were purchased.

In the cutting section, bridge laser, laser table, ultrasonic cutting machine, and cutting line valued at LTL 1.9 million were introduced.

In the sewing section, sewing and special equipment valued at LTL 0.4 million were put into operation.

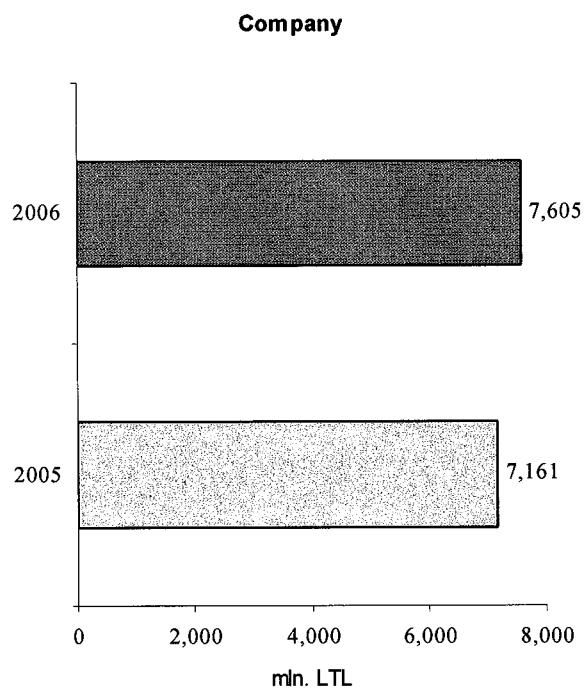
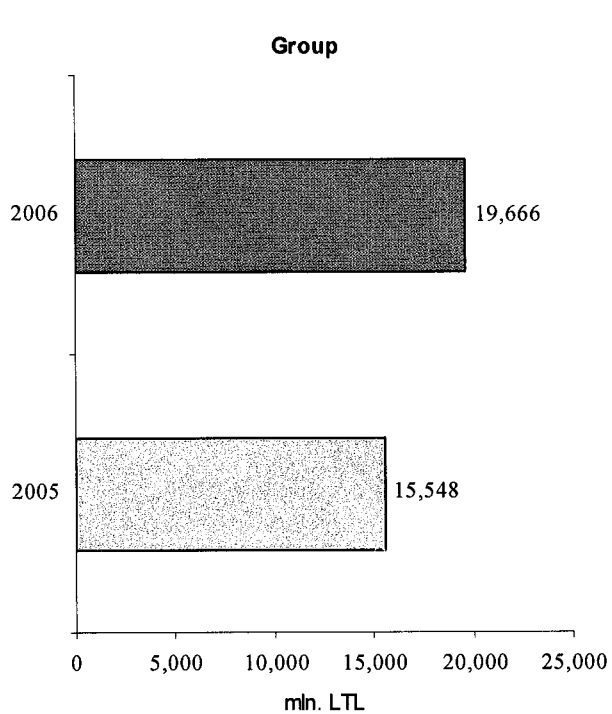
Acquisitions of software and hardware amounted to LTL 0.4 million.

Investments in other manufacturing assets amounted to LTL 0.7 million.

In 2006, Šatrija AB invested LTL 1.044 million, LTL 0.744 million whereof represent investments in special manufacturing equipment, LTL 0.109 million in computer software and hardware, LTL 0.098 million in motor vehicles, LTL 0.082 million in renovation of buildings, and LTL 0.011 million in other investments.

In 2006, OAO MTF Mrija invested LTL 11.015 million, LTL 9 million whereof represent investments in special manufacturing equipment, LTL 0.3 million in computer hardware and software, and LTL 1.7 million in reconstruction of buildings and other.

In 2006, Gotija UAB invested LTL 3.2 thousand.





## REFERENCES TO AND ADDITIONAL EXPLANATIONS OF DATA PRESENTED IN THE ANNUAL FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS

The Group's and the Company's financial statements for 2006 were prepared in accordance with the effective International Reporting Standards (IFRS) adopted for use in the EU.

#### 2.1. Non-current assets

Thousand LTL

	Group		Company	
	2006	2005	2006	2005
Total non-current assets	63,835	57,158	50,437	49,238
Intangible assets	3,690	3,400	871	677
Property, plant and equipment	52,899	50,865	32,894	32,246
Investment property	5,651	931	5,651	5,098
Financial assets	1,167	1,151	10,815	10,750
Deferred income tax assets	428	811	206	467

As at 31 December 2006, the Company's non-current assets amounted to LTL 50.4 million and increased by LTL 1.2 million over 2006. The Group's non-current assets amounted to LTL 63.8 million and increased by LTL 6.7 million over 2006.

#### 2.2. Non-current financial assets – investments into subsidiaries

	Carrying amount of financial assets, thousand LTL	Acquisition cost of financial assets, thousand LTL	Portion of share capital, %
Šatrija AB	4,935	4,935	89.78%
Gotija UAB	240	240	90.50%
OAo MTF Mrija	5,567	5,567	91.85%
<b>Total financial assets – investments into subsidiaries</b>	<b>10,742</b>	<b>10,742</b>	

In 2006, the acquisition cost of financial assets decreased - 100 per cent of shares of a subsidiary Utenos Trikotažo Prekyba UAB were sold to the Company's shareholder Koncernas SBA UAB.

#### 2.3. Current assets and current liabilities

As at 31 December 2006, the Company's current assets amounted to LTL 40.8 million and increased by LTL 6 million over 2006. Cash at bank decreased by LTL 0.02 million over 2006. As at 31 December 2006, the Group's current assets amounted to LTL 51.7 million and increased by LTL 6.4 million over 2006. Cash at bank decreased by LTL 0.03 million over 2006.

The Company's inventories and prepayments decreased by LTL 1.7 million over 2006, and as at 31 December 2006 amounted to LTL 12.7 million, LTL 12.4 million whereof are inventories and LTL 0.3 million are prepayments. The Group's inventories and prepayments as at 31 December 2006 amounted to LTL 22.1 million and decreased by LTL 2.2 million over 2006.

As at 31 December 2006, the Company's amounts receivable amounted to LTL 27.1 million, LTL 12.2 million whereof are trade receivables. Amounts receivable increased by LTL 7.7 million over 2006. The Group's amounts receivable as at 31 December 2006 amounted to LTL 27.9 million and increased by LTL 9 million over 2006.

As at 31 December 2006, the Company's current liabilities amounted to LTL 31.5 million, which is more by LTL 4.3 million as compared to 2005 due to increase in other current amounts payable and accrued charges by LTL 2.8 million and increase in borrowings by LTL 0.8 million. As at 31 December 2006, the Group's current liabilities amounted to LTL 49.2 million, which is more by LTL 9.1 million as compared to 2005.



Thousand LTL	Group		Company	
	2006	2005	2006	2005
Inventories, prepayments and contracts in progress	22,084	24,263	12,739	14,474
Amounts receivable within one year	27,949	18,943	27,105	19,411
Other current assets	142	328	74	55
Cash and cash equivalents	1,526	1,790	873	891
<b>Total current assets</b>	<b>51,701</b>	<b>45,324</b>	<b>40,791</b>	<b>34,831</b>
Current portion of long-term borrowings	13,694	11,048	8,908	8,908
Borrowings from credit institutions	3,720	1,267	870	922
Current portion of long-term finance lease liabilities	893	18	871	-
Trade payables	20,485	18,488	12,789	12,022
Income tax payable	81	-	-	-
Taxes payable	711	1,058	349	366
Other current amounts payable and accrued charges	9,641	8,220	7,758	4,986
<b>Total amounts payable within one year and liabilities</b>	<b>49,225</b>	<b>40,099</b>	<b>31,545</b>	<b>27,204</b>
Turnover ratios, in days				
Current assets*	136	120	145	130
Inventories**	58	63	45	54
Amounts receivable***	62	39	79	54
Current liabilities****	130	108	112	103

## Notes:

\* - current assets/ cost of sales \* 365

\*\* - inventories/ cost of sales \* 365

\*\*\* - accounts receivable/ sales \* 365

\*\*\*\* - accounts payable/ cost of sales \* 365

**2.4. Liquidity and debt ratios**

	Group		Company	
	2006	2005	2006	2005
General liquidity ratio*	1.05	1.13	1.29	1.28
Critical liquidity ratio**	0.60	0.53	0.89	0.75
Debt to asset ratio***	0.70	0.64	0.61	0.61
Debt to equity ratio****	2.33	1.87	1.58	1.55

## Notes:

\* - current assets/ current liabilities

\*\* - (current assets - inventories)/ current liabilities

\*\*\* - (total assets - equity)/ total assets

\*\*\*\* - (total assets - equity)/ equity

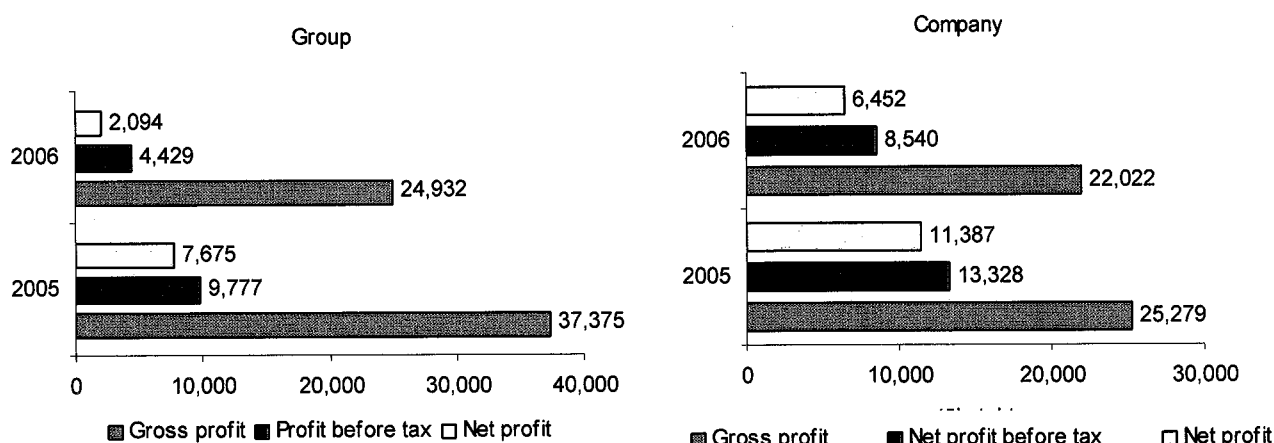
As at 31 December 2006, the Company's borrowings amounted to LTL 34.9 million, LTL 10.6 million whereof have to be repaid in 2007. As at 31 December 2006, the Group's borrowings amounted to LTL 50 million, LTL 18.3 million whereof have to be repaid in 2007.



## 2.5. Profit

In 2006, the Company's gross profit was LTL 22.0 million or LTL 3.3 million less than in 2005. Profit before tax amounted to LTL 8.5 million or LTL 4.8 million less than in 2005. Accordingly, net profit amounted to LTL 6.5 million or LTL 4.9 million less than in 2005.

In 2006, the Group's gross profit was LTL 24.9 million or LTL 12.4 million less than in 2005. The Group's profit before tax amounted to LTL 4.4 million and net profit amounted to LTL 2.1 million.



thous. LTL

In 2006, the Company's operating expenses amounted to LTL 12.5 million. The Company's operating expenses decreased by LTL 0.806 million as compared to 2005. In 2006, the Group's operating expenses amounted to LTL 18.7 million. The Group's operating expenses decreased by LTL 9.1 million as compared to 2005.

The Company's subsidiaries incurred loss of LTL 4.8 million, which is higher by LTL 2.9 million than in 2005.

In 2006, the Company computed LTL 2.08 million in income tax or higher by LTL 0.15 million as compared to 2005. The Group's income tax amounted to LTL 2.3 million or higher by LTL 0.2 million as compared to 2005.

## 2.6. Profitability

	Group		Company	
	2006	2005	2006	2005
Gross profitability*	15.3%	21.6%	17.6%	20.8%
Profitability before tax**	2.7%	5.6%	6.8%	11.0%
Net profitability***	1.3%	4.4%	5.2%	9.4%
Net profitability of assets****	1.8%	7.5%	7.1%	13.5%
Net profitability of equity*****	6.0%	21.0%	18.2%	34.6%

Notes:

\* - gross profit / sales\*100 %

\*\* - profit before tax / sales\*100%

\*\*\* - profit for the year / sales\*100%

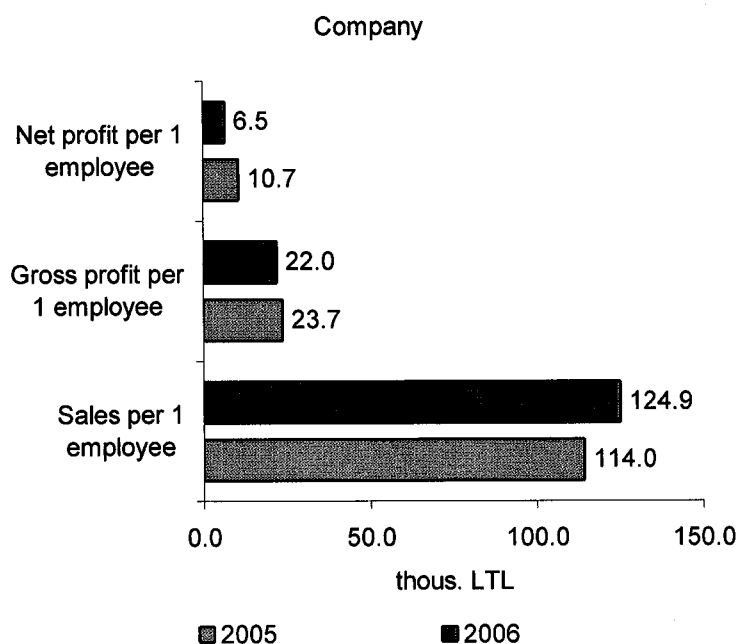
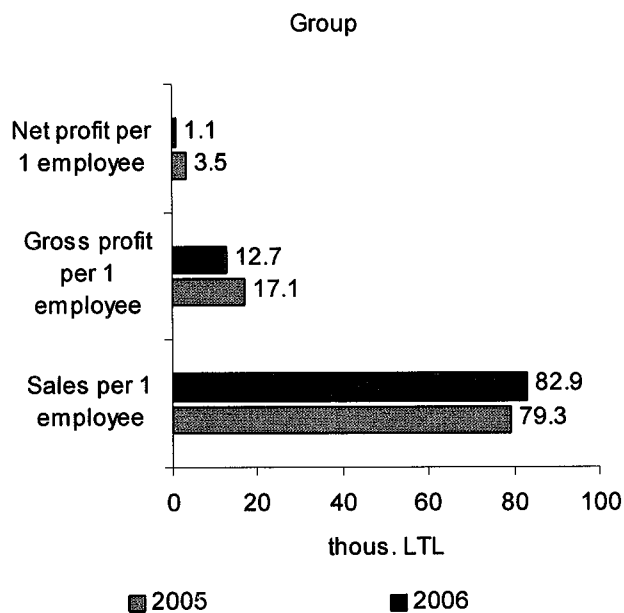
\*\*\*\* - profit for the year / assets \*100%

\*\*\*\*\* - profit for the year / equity \*100 %





## 2.7. Efficiency



In 2006, the Company's sales per employee amounted to LTL 124.9 thousand, which is higher by LTL 10.9 thousand as compared to 2005. In 2006, net profit per the Company's employee decreased by LTL 4.2 thousand down to LTL 6.5 thousand.

In 2006, the Group's sales per employee amounted to LTL 82.9 thousand, which is higher by LTL 3.6 thousand as compared to 2005. In 2006, net profit per the Group's employee decreased by LTL 2.4 thousand down to LTL 1.1 thousand.



## SHARES

As at 31 December 2006, the Company's authorised share capital amounted to LTL 19,834,442.  
Par value of one share is equal to LTL 1. The number of shareholders is 1,151.

### 3.1. Shareholders

	Number of shares	Portion of share capital, %
UAB Koncernas SBA	9,475,363	47.77
Amber Trust S.C.A.(SCA)	3,000,000	15.13
East Capital Asset	2,034,169	10.26
The Company's employees	398,346	2.00
Other	4,926,564	24.84
<b>Total</b>	<b>19,834,442</b>	<b>100.00</b>

### 3.2. Share price and trade on the National Stock Exchange

The Company's shares are included in the Official Trading List of the National Stock Exchange, as well in the Baltic List of Lithuanian, Latvian and Estonian stock market.  
In 2006, turnover in the Company's shares amounted to LTL 2.41 million.

### 3.3. Market value indicators

	2006	2005
Capitalisation, LTL*	123.97	177.72
Earnings per share, LTL**	0.33	0.57
Book value per share, LTL***	1.78	1.66
Price/Earnings per share ratio****	18.94	15.72
Price/Book value ratio*****	3.51	5.4
Price per share, LTL		
Highest	9.10	11.1
Lowest	5.10	8.11
Year-end	6.25	8.96

Notes:

\* - Number of ordinary shares x Price per share

\*\* - (Net profit – dividends on preference shares) / weighted average number of ordinary shares outstanding

\*\*\* - (Owners' equity – Preference share capital and related dividends) / Number of ordinary shares

\*\*\*\* - Price per share / Earnings per share

\*\*\*\*\* - Price per share / Book value of share



## INFORMATION ABOUT SUBSIDIARIES

As at 31 December 2006, Utenos Trikotažas AB had controlling blocks of shares in the following three subsidiaries:

AB Šatrija	–	89.78 per cent,
UAB Gotija	–	90.50 per cent,
OAO MTF Mrija	–	91.85 per cent.

### 4.1. Šatrija AB

Šatrija AB was founded in 1955. Its address is: Vilniaus g. 5, 4400 Raseiniai, Lithuania, fax. 8 (428) 70611, e-mail: [raseiniai@satrija.lt](mailto:raseiniai@satrija.lt).

**Director General – Mrs. Aida Zigmantavičienė**

The company's authorised share capital is LTL 10,420,551, 89.78 per cent whereof is controlled by Utenos Trikotažas AB. The company's principal activity is production of sewn articles. Production articles include trousers, suits, overalls, jackets, coats, overcoats and others. In 2006, average number of employees at Šatrija AB was 407.

In 2006, the company's total sales amounted to LTL 40.7 million or higher by 2.4 per cent as compared to 2005. Sales in Lithuania accounted for 14 per cent, whereas exports accounted for 86 per cent of total production. According to International Financial Reporting Standards, Šatrija AB earned net profit of LTL 376.4 thousand in 2006.

### 4.2. Gotija UAB

Gotija UAB was founded in 1994. Its address is: Laisvės al. 33, Kaunas, Lithuania, tel.: 8 (37) 205879.

**Director – Mrs. Zita Davtartienė**

The company's authorised share capital is LTL 190,000, 90.5 per cent whereof is owned by Utenos Trikotažas AB.

The company's principal activity is retail trade in clothes. The company has 5 employees.

In 2006, the company's sales amounted to LTL 748.5 thousand, and net profit was LTL 29.4 thousand.

### 4.3. OAO Mukačevska Trikotažnaja Fabrika Mrija

OAO MTF Mrija was founded in 1971. Its address is: Matrosova 13, 89600 Mukačevo, Ukraine, fax. +380 (3131) 52780, e-mail: [mriya@mk.ukrtel.net](mailto:mriya@mk.ukrtel.net).

**General Project Manager – Mr. Arvydas Pretkelis**

The company's authorised share capital is LTL 2,960,942, 91.85 per cent whereof is held by Utenos Trikotažas AB.

The company's principal activity is sewing. Production articles include a wide range of outer knit-wear and under knit-wear items. In 2006, the company had on average 555 employees.

In 2006, the company's sales of 'full manufacturing cycle' products amounted to LTL 4.035 million. According to International Financial Reporting Standards, the company incurred loss of LTL 5,253.6 thousand in 2006.



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## SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE PREVIOUS FINANCIAL YEAR AND BEFORE THE APPROVAL DATE OF THE ANNUAL REPORT

### January

100 per cent of shares of a subsidiary Utenos Trikotažo Prekyba UAB were sold to the Company's shareholder UAB Koncernas SBA.

### March

External review of management system based on SA 8000 was carried out. No cases of non-compliance were noted.

### April

On 30 April, a General Meeting of Shareholders of Utenos Trikotažas AB was held and the following resolutions were adopted:

1. Approved the Company's performance report for 2005.
2. Approved the auditor's findings.
3. Approved annual financial statements for 2005.
4. Approved appropriation of profit for 2005. Resolved to pay dividends of LTL 0.20 per share with par value of LTL 1. 20 April 2006 was the date of accounting for shareholders entitled to receive dividends.
5. PricewaterhouseCoopers UAB was elected as the auditor of Utenos Trikotažas AB for 2006.

### May

The Company obtained SA 8000 certificate.

### June

External review of management system based on ISO 9001 and ISO 14001 was carried out. No cases of non-compliance were noted.

### September

BVQI Organisation carried out external audit of the Company for compliance with SA 8000:2001. No cases of non-compliance were noted.

A full manufacturing cycle was implemented in the Company's subsidiary in Ukraine OAO MTF Mrija.

The Company participated in a trade fair Baltic Textile and Leather.

### November

External review of management system based on ISO 9001 and ISO 14001 was carried out. No cases of non-compliance were noted.

### December

During the closing Christmas event of the Lithuanian Association of Clothing and Textile Companies, 5 employees of the Company were awarded with Golden Bobbin title of honour.

The Lithuanian Chamber of Industry and Trade awarded the Lithuanian Export Prize 2006 to the Company for growing exports in 2006.

The Company held a traditional event for young people called 'Career Days'. This year the Company opened its door for and familiarised with its manufacturing processes the students of Alanta Technology and Business School, Rokiškis Technology, Business and Agriculture School, and Visaginas Polytechnic School.



## THE COMPANY'S OPERATION PLAN FOR 2007

### The Company's goals for 2007 are as follows:

1. Achieve total sales of LTL 140.7 million.
2. Achieve sales to new customers and customers from higher outfit segment, and sales of own-design products of LTL 9 million.
3. Earn net consolidated profit of LTL 8.5 million.
4. Improve flexibility and speed of manufacturing process:
  - a. Achieve new order fulfilment duration of not more than 6.8 weeks.
  - b. Buy 75.5 million minutes of sewing services.
  - c. Retain reprocessing level of decoration section at not higher than 16 per cent.
  - d. Reduce time necessary for pattern production to 14 days.
5. Offer attractive innovations to customers: introduce over 63 per cent of new materials into mass production.
6. Train qualified personnel, optimize the number of employees and maintain a reserve.

### Sales

It is expected that the Company's consolidated sales will reach LTL 140.7 million or increase by 14.7 per cent as compared to 2006. It is expected that the Company's exports will increase up to LTL 122.6 million or LTL 12.1 million more than in 2006.

In 2006, it is expected to sell 15.5 million items, 8.8 million whereof will be produced by OAO MTF Mrija.

### Profit

In 2007, the Company plans to earn consolidated profit before taxes of LTL 9.6 million.

### Investments

In 2007, the Company plans to invest LTL 5.3 million, OAO MTF Mrija – LTL 1.4 million.

### Personnel

In 2007, it is expected that the Company's average number of employees will be 1,025, OAO MTF Mrija – 650 employees.

#### Profile of activities:

- Training of qualified personnel (specialists and workers).
- Optimization of the number of employees.
- Training and retention of employees and their reserves with critical job responsibilities.
- Formation of organisational culture and employee loyalty to the Company.

It is expected to designate LTL 257.3 thousand for personnel training.

#### Profile of training:

- Training of specialists:
  - Based on SBA group training programme "Jaunesnieji Lyderiai", "Lyderiai", "Peraugėliai".
  - Marketing, internal auditors, logistics;
  - Personnel management and development of management skills.
- Training of workers.

**Note:** the Company's operation plan for 2007 was approved during the Board's meeting held on 14 February 2006, Minutes No. 1.



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## INFORMATION ABOUT RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research activities and decisions made are focused on potential development opportunities through the implementation of the Company's strategic goals. This involves improvement of production technologies, development of new materials attractive to the customers, development of own-design collections, certification of production processes, etc.

## OBJECTIVES OF FINANCIAL RISK MANAGEMENT, HEDGING INSTRUMENTS USED IN RESPECT OF ITS MAIN CATEGORIES OF TRANSACTIONS QUALIFYING FOR HEDGE ACCOUNTING, AND THE COMPANY'S EXPOSURE TO PRICE RISK, CREDIT RISK, LIQUIDITY RISK AND CASH FLOW RISK

The Company's financial risk management objective is to protect itself against all potential property and non-property damage or risks.

For financial risk management purposes, the Company uses various instruments by types of operational risks.

The Company's sales to Lithuanian, Latvian and Estonian customers with deferred payment terms are insured at international insurance company Euler Hermes Kreditversicherungs AG Branch in Lithuania, and at Atradius Credit Insurance for other foreign customers.

The Company's tangible assets: buildings, constructions, production facilities, inventories held inside and outside the Company's area (held with subcontractors) are insured against almost all possible damage risks, including theft. Tangible assets are insured at net book value. All cars of the Company have third party liability insurance and KASKO insurance. Property is insured at insurance company Lietuvos Draudimas.

The Company's business activities are insured with the General Third Party Liability Insurance covering Product and Business Liability Insurance at insurance company IF Draudimas.

To avoid potential risk of increase in prices of raw materials, long-term supply agreements are signed with the major suppliers, and some agreements provide for price level stability covenants.

To avoid liquidity risk, financial reports are prepared on a monthly basis, the ratio of current assets and current liabilities is observed.

Various financial instruments are used to manage cash flow risk, such as credit lines, finance lease, factoring, extension of settlement terms with suppliers, reduction of payment terms for unloaded products.



## BOARD OF DIRECTORS

Arūnas MARTINKEVIČIUS  
Utenos Trikotažas AB, Chairman of the Board,  
UAB koncernas SBA, President

Regina SAJIENĖ  
Member of the Board,  
Utenos Trikotažas AB, Director General

Martynas ČESNAVIČIUS  
Member of the Board,  
Amber Trust S.C.A, representative

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## OTHER DIRECTORS

Diana BRAŠIŠKIENĖ  
Utenos Trikotažas AB, Production Director

Laimutis ŽURAUSKAS  
Utenos Trikotažas AB, Director for Technology and Innovations

Nerijus VILŪNAS  
Utenos Trikotažas AB, Marketing Director

Darius VARNAS  
Utenos Trikotažas AB, Head of Finance



## APPENDIX TO THE ANNUAL REPORT

## UTENOS TRIKOTAŽAS AB DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE REGULATED MARKET IN 2006

**Utenos Trikotažas AB** (hereinafter 'the Company') following paragraph 3 of Article 21 of the Law of the Republic of Lithuania on Public Trading in Securities and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	Relevant matters are made public in the Company's prospectus-report deliveries, and they are publicly available on the websites of the Lithuanian Securities Commission and the Stock Exchange.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	Every year the Company's board approves the plans of operation containing the description of the Company's development strategy for 2-3 upcoming years. All bodies of the Company are familiarised with the strategic objectives and the ways of their implementation as set forth in the plans of operation. The Company has implemented a motivation system, which ensures direct link between the strategic objectives and personal performance of individual employees.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	This recommendation is implemented by the board and chief executive officer (the supervisory board has not been set up).
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company has a collective employment contract in place. Utenos Trikotažas AB supports youth and non-governmental organisations, foster homes, organisations of disabled individuals, multichild families, Utena Region Community Fund.





<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The supervisory board has not been set up, however, the general meeting of shareholders has elected the board. The Company's chief executive officer and the chairman of the board is not one and the same person.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions described in the recommendation are fulfilled at the Company by a collegial management body – the board.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	Only one collegial body has been set up.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	No comments.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Company's board is composed of 3 members. The Company's chief executive officer and the chairman of the board is not one and the same person.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Not applicable	There are no non-executive directors and the supervisory board.



<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The Company is in compliance with this recommendation. The Company has not set up the supervisory board, and the chairman of the board has never been in the past and currently is not the Company's chief executive officer.</p>
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<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>		
<p><b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>A collegial management body is set up in accordance with the requirements of the Lithuanian Law on Companies, and the shareholders are notified of candidates to become members of the Company's collegial management body.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>This information on candidates to the board was disclosed to the shareholders together with the notification on convening the general meeting of shareholders, which involved the election of members to the board, and the agenda of the general meeting of shareholders.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>No</p>	<p>Such kind of information is not disclosed by a collegial body – the board members – in the annual report.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>	<p>Yes</p>	<p>The members of the Company's management bodies are actively involved in a wide range of areas in other companies, which enables them to ensure an adequate competence in respect of their current functions.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>No</p>	<p>No comments.</p>



<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	No	During the whole practice of the Company, the independence of the board members has not been subject to any assessments so far.
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"><li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li><li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li><li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li><li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1);</li></ol>	No	During the whole practice of the Company, the independence of the board members has not been subject to any assessments so far.



<p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>	No	During the whole practice of the Company, the independence of the board members has not been subject to any assessments so far.
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	No	
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	No	During the whole practice of the Company, the independence of the board members has not been subject to any assessments so far.



<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	<p>No</p>	<p>During the whole practice of the Company, the independence of the board members has not been subject to any assessments so far.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Yes</p>	<p>The board members receive bonuses.</p>



**Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p>	<p>Yes</p>	<p>No comments.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>No comments.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>No comments.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's Articles of Association define the procedure of co-operation between a collegial body and the shareholders in accordance with the Lithuanian Law on Companies.</p>



<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	Yes	These matters are stipulated in the Board's Work Regulations of the Company.
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>	Yes	The Company's director general is a board member, however, not a chairman of the board.
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	Not applicable	These matters are addressed by the board.





<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	Not applicable	See item 4.7.
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	Not applicable	See item 4.7.
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	Not applicable	See item 4.7.
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	Not applicable	See item 4.7.



<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"><li>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li><li>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li><li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li><li>4) Properly consider issues related to succession planning;</li><li>5) Review the policy of the management bodies for selection and appointment of senior management.</li></ol> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>Not applicable</p>	<p>See item 4.7.</p>
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4.13. Remuneration Committee.

4.13.1. Key functions of the remuneration committee should be the following:

- 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;
- 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;
- 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;
- 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);
- 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:

- 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;
- 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;
- 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.

4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.

Not applicable See item 4.7.



4.14. Audit Committee.

4.14.1. Key functions of the audit committee should be the following:

- 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);
- 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;
- 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;
- 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;
- 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;
- 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

Not applicable

See item 4.7.



4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.

4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.



<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	<p>No</p>	<p>A collegial body – the board – does not carry out any assessment of its activities. The board assesses the Company's annual performance.</p>
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<b>Principle V: The working procedure of the company's collegial bodies</b>		
<b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b>		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	No comments.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	No	The board meetings are held at least once in a quarter or at shorter intervals, if necessary.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	No comments.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely cooperate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	Not applicable, since only the board has been set up.



<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorised share capital consists of ordinary registered shares that grant the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company's authorised share capital consists of ordinary registered shares that grant the same rights to all their holders.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company is in compliance with the Law on Companies and its Articles of Association.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	No comments.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company is in compliance with the Law on Companies and its Articles of Association.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	No comments.





<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>No</p>	<p>The Company has no technical possibilities to use modern technologies in voting process during the general meetings of shareholders, and the shareholders have never requested so far to use modern technologies in voting process during the general meetings of shareholders.</p>
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**Principle VII: The avoidance of conflicts of interest and their disclosure**

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	No comments.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	



<b>Principle VIII: Company's remuneration policy</b>		
<b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company's remuneration policy is contained in a business plan approved by the board.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The remuneration statement is neither prepared nor made public in a form as set forth herein.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	The remuneration statement is neither prepared nor made public in a form as set forth herein.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The remuneration statement is neither prepared nor made public in a form as set forth herein.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The Company has not set up any remuneration committees.



<p>8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	No	The remuneration statement is neither prepared nor made public in a form as set forth herein.
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"><li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li><li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li><li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li><li>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li><li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li><li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li></ol> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"><li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li><li>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li><li>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</li><li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li></ol> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"><li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li><li>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li></ol> <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in</p>	No	The remuneration statement is neither prepared nor made public in a form as set forth herein.



<p>the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	Not applicable	The Company neither has nor applies any share-based schemes anticipating remuneration of directors in shares, share options, etc.
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"><li>1) Grant of share-based schemes, including share options, to directors;</li><li>2) Determination of maximum number of shares and main conditions of share granting;</li><li>3) The term within which options can be exercised;</li><li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li><li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li></ol>	Not applicable	
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	Not applicable	
<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	Not applicable	



<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	<p>Not applicable</p>	
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<b>Principle IX: The role of stakeholders in corporate governance</b>		
<b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company has a collective employment contract in place. The chairman of the trade union is invited to join monthly production meetings and other major management discussions of the Company.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		



**Principle X: Information disclosure and transparency**

**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**

10.1. The company should disclose information on:  
1) The financial and operating results of the company;  
2) Company objectives;  
3) Persons holding by the right of ownership or in control of a block of shares in the company;  
4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;  
5) Material foreseeable risk factors;  
6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;  
7) Material issues regarding employees and other stakeholders;  
8) Governance structures and strategy.  
This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.  
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.  
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.  
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.

Yes

All information, except for certain items (see the note below), is disclosed in the Company's annual prospectus-reports, and posted on the websites of the Company and the Vilnius Stock Exchange.

Note:

The following information mentioned in paragraph 4 of recommendation item 10.1 is disclosed: members of the Company's supervisory and management bodies, chief executive officer of the Company.

Information mentioned in recommendation items 10.2 to 10.4 is not disclosed.





<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	Yes	Information is posted on the website of the Vilnius Stock Exchange.
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	Yes	Information is posted on the website of the Vilnius Stock Exchange.
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	No	This information is available on the websites of the Stock Exchange and the Lithuanian Securities Commission.



<b>Principle XI: The selection of the company's auditor</b>		
<b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	No	The Company is compliance with the legal requirements in terms of the audit of its annual financial statements and the annual report by an independent firm of auditors. Interim financial statements are not audited.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Company is in compliance with this recommendation, where the Company's board proposes a candidate firm of auditors to the general meeting of shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The firm of auditors hired to audit the Company's financial statements for 2006 has rendered non-audit services to the Company for a certain fee. This information will be disclosed to the general meeting of shareholders.