

AB VILNIAUS BALDAI

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2006
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION,
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of AB Vilniaus Baldai

We have audited the accompanying financial statements of AB Vilniaus Baldai, a joint stock company registered in the Republic of Lithuania ("the Company"), which comprise the balance sheet as of 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. 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

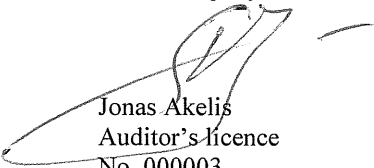
As described in Note 5 to the accompanying financial statements, the Company has performed the valuation of its buildings for the last time in 1999, which is not in compliance with the requirement of International Financial Reporting Standards to perform the valuation more frequently. We have not obtained sufficient audit evidence with regards to the fair value of buildings as of 31 December 2006.

As described in Note 6 to the accompanying financial statements, the Company has not accounted for the value of goodwill that occurred during the acquisition of shares of UAB Girių Bizonas based on the fair values as required by International Financial Reporting Standards. We have not obtained sufficient audit evidence with regards to what would the value of goodwill have been had the fair values been used for its computation.

Qualified Opinion

In our opinion, except for the effect of the adjustments, if any, that may have been required had we been able to perform the procedures discussed in section *Basis for Qualified Opinion* above, the accompanying financial statements present fairly, in all material respects, the financial position of AB Vilniaus Baldai as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514



Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 6 April 2007.

Balance sheet

	Notes	As of 31 December 2006	As of 31 December 2005
ASSETS			
Non-current assets			
Intangible assets	4	376	419
Property, plant and equipment	5		
Land and buildings		23,253	24,248
Machinery and equipment		35,887	42,130
Vehicles		612	909
Other property, plant and equipment		1,369	1,620
Construction in progress and prepayments		108	32
Total property, plant and equipment		61,229	68,939
Non-current financial assets			
Investments	6	25,058	24,802
Other non-current financial assets		2	2
Total non-current financial assets		25,060	24,804
Total non-current assets		86,665	94,162
Current assets			
Inventories	7	13,607	14,325
Accounts receivable			
Trade receivables	8	6,969	6,998
Accrued income, prepayments and other receivables	9	2,605	2,811
Total accounts receivable		9,574	9,809
Cash and cash equivalents	10	15	8
Total current assets		23,196	24,142
Total assets		109,861	118,304

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

Balance sheet (cont'd)

	Notes	As of 31 December 2006	As of 31 December 2005
EQUITY AND LIABILITIES			
Equity			
Share capital	1	15,545	15,545
Revaluation reserve (result)	11	8,554	8,773
Reserves	11	1,222	1,049
Retained earnings (deficit)		920	10,064
Total equity		26,241	35,431
Liabilities			
Non-current liabilities			
Non-current borrowings	12	46,007	53,435
Deferred income tax liability	19	1,744	2,046
Total non-current liabilities		47,751	55,481
Current liabilities			
Current portion of non-current borrowings and other current borrowings	12	18,692	11,559
Trade payables		12,908	12,894
Other current and accrued liabilities	13	4,269	2,939
Total current liabilities		35,869	27,392
Total equity and liabilities		109,861	118,304

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

General Director	Nerijus Pacevičius	6 April 2007
Chief Accountant	Vygantas Didžiulis	6 April 2007

Income statement

	Notes	2006	2005
Sales	14	110,289	110,849
Cost of sales	15	(103,069)	(97,093)
Gross profit (loss)		7,220	13,756
Operating expenses	16	(8,982)	(7,303)
Profit (loss) from operations		(1,762)	6,453
Other operating income (expenses), net	17	288	(341)
Income (expenses) from financial and investment activities, net	18	(3,158)	(1,654)
Share of associate result	6	(987)	(208)
Profit (loss) before tax		(5,619)	4,250
Income tax	19	302	(804)
Net profit (loss)		(5,317)	3,446
Earnings (loss) per share (in LTL)	20	(1.37)	0.89

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

General Director	Nerijus Pacevičius	6 April 2007
Chief Accountant	Vygantas Didžiulis	6 April 2007

Statement of changes in equity

	Notes	Share capital	Revaluation reserve (result)	Legal reserve	Retained earnings (deficit)	Total
Balance as of 31 December 2004		15,545	8,987	637	10,684	35,853
Reversal of revaluation reserve		-	(232)	-	232	-
Adjustment of deferred income tax liability		-	18	-	-	18
Dividends approved		-	-	-	(3,886)	(3,886)
Transfers to reserves		-	-	412	(412)	-
Net profit for the year		-	-	-	3,446	3,446
Balance as of 31 December 2005		15,545	8,773	1,049	10,064	35,431
Reversal of revaluation reserve		-	(201)	-	201	-
Adjustment of deferred income tax liability	19	-	(18)	-	18	-
Dividends approved	21	-	-	-	(3,886)	(3,886)
Transfers to reserves	11	-	-	173	(173)	-
Adjustment of retained earnings (deficit)		-	-	-	13	13
Net loss for the year		-	-	-	(5,317)	(5,317)
Balance as of 31 December 2006		15,545	8,554	1,222	920	26,241

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

General Director	Nerijus Pacevičius	6 April 2007
Chief Accountant	Vygantas Didžiulis	6 April 2007

Cash flow statement

	<u>2006</u>	<u>2005</u>
Cash flows from (to) operating activities		
Net profit (loss)	(5,317)	3,446
Adjustments for non-cash items:		
Depreciation and amortisation	8,813	6,862
Result from the disposal of property plant and equipment	103	-
Write-off of property, plant and equipment	47	-
Change in allowance for trade and other receivables	869	-
Allowance for inventories	900	-
Deferred taxation	(302)	803
Vacation pay accrual	-	295
Share of profit (loss) of associate	987	208
Interest expenses	3,087	1,654
	<u>9,187</u>	<u>13,268</u>
Changes in working capital:		
(Increase) in inventories	(182)	(2,892)
Decrease (increase) in trade and other receivables	1,474	(1,172)
(Decrease) in trade payables	(764)	(6,789)
Increase (decrease) in income tax payable	13	(2,874)
Net cash flows from (to) operating activities	<u>9,728</u>	<u>(459)</u>
Cash flows from (to) investing activities		
(Acquisition) of property, plant and equipment	(1,302)	(17,141)
(Acquisition) of investments	(1,242)	(24,260)
Capitalisation of non-current intangible assets	-	(333)
Disposal of property, plant and equipment	91	46
Net cash flows (to) investing activities	<u>(2,453)</u>	<u>(41,688)</u>

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

Cash flow statement (cont'd)

	<u>2006</u>	<u>2005</u>
Cash flows from (to) financing activities		
Cash flows related to company shareholders		
Dividends (payment)	-	(3,886)
	-	(3,886)
Cash flows related to other sources of financing		
Proceeds from loans	1,913	47,154
(Repayment) of loans	(6,094)	-
Interest (paid)	(3,087)	(1,371)
	(7,268)	45,783
Net cash flows (to) from financial activities	(7,268)	41,897
Net increase (decrease) in cash and cash equivalents	7	(250)
Cash and cash equivalents at the beginning of the year	8	258
Cash and cash equivalents at the end of the year	15	8

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

_____ General Director	_____ Nerijus Pacevičius	_____ 6 April 2007
_____ Chief Accountant	_____ Vygantas Didžiulis	_____ 6 April 2007

Notes to the financial statements

1 General information

AB Vilniaus Baldai (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Savanorių Ave. 178,
LT-03154 Vilnius,
Lithuania.

The Company is engaged in furniture production and trade. The Company was registered on 9 February 1993, its shares 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		Number of shares held	Percentage
AB INVALIDA	2,598,954	66.88%	2,592,917	66.72%
AB Bankas Hansabankas clients	278,860	7.18%	290,052	7.46%
Other minor shareholders	1,008,453	25.94%	1,003,298	25.82%
Total	<u>3,886,267</u>	<u>100.00%</u>	<u>3,886,267</u>	<u>100.00%</u>

All the shares of the Company are ordinary shares with the par value of LTL 4 each and were fully paid as of 31 December 2006 and 2005. The share capital did not change in 2006 and 2005. Subsidiaries and associated companies 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 the number of employees of the Company was 852 (as of 31 December 2005 – 1,096).

The Company's management approved these financial statements on 6 April 2007. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of another set of financial statements.

2 Accounting principles

The principal accounting policies adopted in preparing the Company's financial statements for the year ended 31 December 2006 are as follows:

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Financial year of the Company coincides with the calendar year.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The accounting policies adopted are consistent with those of the previous financial year except for as follows: The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company. They did however give rise to additional disclosures.

- IAS 19 Amendment - Employee Benefits;
- IAS 21 Amendment - The Effects of Changes in Foreign Exchange Rates;
- IAS 39 Amendments - Financial Instruments: Recognition and Measurement;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 (Capital Disclosures) (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IFRS 7 Financial Instruments: Disclosures; IAS 1 amendment Capital Disclosures and IFRS 8 Operating Segments. The Company is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL).

Starting from 2 February 2002, Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Intangible assets (except goodwill)

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Licenses

Amounts paid for licences are capitalised and then amortised over their validity period.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding X years.

Costs incurred in order to restore or maintain the future economic benefits that the Company expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

2 Accounting principles (cont'd)

2.4. Property, plant and equipment

Buildings are stated at revalued amount less accumulated depreciation and impairment losses. The Company regularly revaluates its buildings. The last valuation was performed by independent valutors in 1999.

Any increase in the value of buildings is credited to the property revaluation reserve, unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case it is recognised as income. Any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter recognised as an expense. Upon the disposal or depreciation of revalued property, the relevant portion of the revaluation reserve realised in respect of previous valuation is released from the property revaluation reserve directly to retained earnings.

Other property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance and/or that they have resulted in an increase of the useful life of the asset, the expenditures are capitalised as an additional cost of property, plant and equipment. The Company capitalises property, plant and equipment purchases with an estimated useful life exceeding one year and an acquisition cost above LTL 500.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	10 - 66 years
Machinery and equipment	6 - 10 years
Vehicles	5 - 10 years
Other non-current assets	2 - 6 years

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

2.5. Investments (except investments into associates)

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The category 'financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

2 Accounting principles (cont'd)

2.5. Investments (except investments into associates) (cont'd)

Available-for-sale financial assets are those non-derivative financial assets that are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.6. Investments into associates

Investments in associated companies where significant influence is exercised by the Company are accounted for using the equity method. Impairment assessment of investments in associates is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

Goodwill acquired in acquisition of an associate is initially measured at cost being the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.7. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow-moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written-off.

2.8. Receivables and loans granted

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortised cost, less impairment loss.

2.9. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in 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.

2.10. Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

2 Accounting principles (cont'd)

2.11. Financial and operating leases

Financial lease

The Company recognises financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, Company's composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Company's income statement for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets can not be depreciated over the period longer than lease term, unless the Company, according to the lease contract, gets transferred their ownership after the lease term is over.

If the result of sales and lease back transactions is financial lease, any profit from sales exceeding the book value is not recognised as income immediately. It is postponed and amortised over the lease term.

Operating lease

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2.12. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.13. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

In 2005 the standard income tax rate in Lithuania was 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 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 m. the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

2 Accounting principles (cont'd)

2.13. Income tax (cont'd)

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 only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.14. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

2.15. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In the cases when a long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

2.16. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances are translated at period-end exchange rates.

2.17. Segment information

In these financial statements a business segment means a constituent part of the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

2 Accounting principles (cont'd)

2.18. Impairment of assets

Financial assets

Financial assets as well as goodwill are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.19. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.21. Subsequent events

Post-balance sheet events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2.22. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain International Financial Reporting Standards specifically require such set-off.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

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3 Segment information

For management purposes the activities of the Company are organised as one major segment - manufacture and trade of furniture. Revenues by geographical segments are presented below:

	Sales	
	2006	2005
Lithuania	5,348	2,829
Other European countries	104,941	108,020
	<u>110,289</u>	<u>110,849</u>

All assets of the Company are related to the geographical segment of Lithuania as all of them are in Lithuania.

4 Intangible assets

	Software
Cost:	
Balance as of 31 December 2005	999
Additions	224
Balance as of 31 December 2006	<u>1,223</u>
Accumulated amortisation:	
Balance as of 31 December 2005	580
Charge for the year	267
Balance as of 31 December 2006	<u>847</u>
Net book value as of 31 December 2006	<u>376</u>
Net book value as of 31 December 2005	<u>419</u>

The Company has no internally generated intangible assets. Amortisation expenses of intangible assets are included within operating expenses in the income statement.

Part of the non-current intangible assets of the Company with the acquisition cost of LTL 160 thousand as of 31 December 2006 and 2005 was fully amortised but was still in use.

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5 Property, plant and equipment

	Land and buildings	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost or revalued amount:						
Balance as of 31 December 2004	30,676	46,186	1,191	2,521	764	81,338
Additions	-	14,723	194	768	1,485	17,170
Disposals	(43)	(273)	(4)	(156)	-	(476)
Reclassifications	1,479	768	-	(30)	(2,217)	-
Balance as of 31 December 2005	32,112	61,404	1,381	3,103	32	98,032
Additions	-	966	4	140	63	1,173
Disposals and retirements	(4)	(353)	(269)	(197)	-	(823)
Reclassifications	(96)	24	(5)	64	13	-
Balance as of 31 December 2006	32,012	62,041	1,111	3,110	108	98,382
Accumulated depreciation:						
Balance as of 31 December 2004	7,029	14,168	352	1,252	-	22,801
Charge for the year	857	5,381	124	354	-	6,716
Disposals	(22)	(269)	(4)	(129)	-	(424)
Reclassifications	-	(6)	-	6	-	-
Balance as of 31 December 2005	7,864	19,274	472	1,483	-	29,093
Charge for the year	899	7,100	135	412	-	8,546
Disposals and retirements	(4)	(220)	(108)	(154)	-	(486)
Balance as of 31 December 2006	8,759	26,154	499	1,741	-	37,153
Net book value as of 31 December 2006	23,253	35,887	612	1,369	108	61,229
Net book value as of 31 December 2005	24,248	42,130	909	1,620	32	68,939

The depreciation charge of the Company's property, plant and equipment for the year 2006 amounts to LTL 8,546 thousand (LTL 6,716 thousand for the year 2005). An amount of LTL 7,611 thousand (LTL 5,860 thousand for the year 2005) has been included into production cost for the year. An amount of LTL 622 thousand for the year 2006 (LTL 857 thousand for the year 2005) has been included into operating expenses. The remaining amount of LTL 313 thousand has been accounted for in finished goods.

Property, plant and equipment of the Company with a net book value of LTL 48,585 thousand as of 31 December 2006 (LTL 54,754 thousand as of 31 December 2005) was pledged to the banks as a collateral for the loans (Note 12).

Property, plant and equipment of the Company with the acquisition cost of LTL 8,063 thousand was fully depreciated as of 31 December 2006 (LTL 5,348 thousand as of 31 December 2005) but was still in active use. The major part of the fully depreciated property, plant and equipment consists of machinery and equipment.

In 1998 and 1999 the independent valuers from UAB Matininkai made a valuation of all the Company's buildings in order to estimate their market value. Based on this valuation, the Company recorded an increase in the value of the buildings of LTL 11,319 thousand, and the related revaluation reserve was created under the equity. There were no independent valuations of the buildings performed since 1999.

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6 Investments into subsidiaries and associates

Acquisitions cost of investments of the Company into subsidiaries and associates as of 31 December 2006 and 2005 are presented below:

	2006		2005	
	Share capital	Acquisition cost	Share capital	Acquisition cost
UAB Girių Bizonas	25.93%	26,250	25%	25,000
UAB Ari-Lux	24.00%	<u>2</u>	100%	<u>10</u>
		<u>26,252</u>		<u>25,010</u>

Changes of book value of investments of the Company into subsidiaries and associates in 2006 and 2005 are presented below:

	Company	
	2006	2005
Balance in the beginning of the year	24,802	-
Acquisition of associate a)	-	25,000
Acquisition of subsidiary b)	-	10
Increase in share capital of associate c)	1,250	-
Disposal of shares of subsidiary to the shareholders d)	(7)	-
Impact of the equity method	<u>(987)</u>	<u>(208)</u>
	<u>25,058</u>	<u>24,802</u>

- a) On 7 July 2005 the Company signed a shares purchase-sale agreement for the acquisition of the UAB Girių Bizonas new emission of 116,664 ordinary shares with the par value of LTL 100 each (25% of share capital). According to the agreement the acquisition price is LTL 25,000 thousand. In July 2005 the Company acquired 25% share capital of UAB Girių Bizonas. The acquisition cost amounted to LTL 25,000 thousand and the book value of the net assets for the appropriate part on the acquisition date amounted to LTL 15,353 thousand and it has resulted in a goodwill amounting to LTL 9,647 thousand, based on the book values.
- b) On 17 November 2005 the Company signed a shares purchase-sale agreement with an individual for the acquisition of 100 ordinary shares of UAB Ari-Lux with the par value of LTL 100 each (100% of share capital). According to the agreement the acquisition price is LTL 10 thousand.
- c) On 12 September 2006 UAB Girių Bizonas decided to increase the share capital by additionally issuing 23,333 ordinary shares with the par value of LTL 100 each. On 20 November 2006 the Company acquired 5,833 ordinary shares of the new emission. According to the agreement the acquisition price is LTL 1,250 thousand.
- d) On 8 February 2006 the Company signed a shares purchase-sale agreement with an individual concerning sale of 76 ordinary shares of UAB Ari-Lux with the par value of LTL 100 each (76% of share capital). According to the agreement the selling price is LTL 8 thousand.

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7 Inventories

	<u>2006</u>	<u>2005</u>
Raw materials	9,703	8,956
Work in progress	2,688	2,324
Finished goods	2,026	2,908
Goods for resale	90	137
	<u>14,507</u>	<u>14,325</u>
Less: net realisable value allowance	(900)	-
	<u>13,607</u>	<u>14,325</u>

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

The acquisition cost of the Company's inventories accounted for at net realisable value as of 31 December 2006 amounted to LTL 14,507 thousand (as of 31 December 2005 allowance for inventories was not accounted for). Changes in the allowance for inventories for the year 2006 have been included into operating expenses.

As disclosed in Note 12, in order to secure the repayment of loans, the Company pledged inventories with the total acquisition cost of LTL 9,000 thousand as of 31 December 2006.

In its accounting records the Company does not reflect the cost of third party inventories held in its storage facilities for processing.

8 Trade receivables

	<u>2006</u>	<u>2005</u>
Trade receivables, gross	7,762	6,998
Less: allowance for doubtful trade receivables	(793)	-
	<u>6,969</u>	<u>6,998</u>

Changes in allowance for doubtful trade receivables for the year 2006 have been included into operating expenses.

9 Accrued income, prepayments and other receivables

	<u>2006</u>	<u>2005</u>
Overpayment of VAT	787	748
Loan granted to UAB Girių Bizonas	-	750
Income and social tax prepayment	1,469	675
Other receivables and deferred charges	425	638
	<u>2,681</u>	<u>2,811</u>
Less: allowance for doubtful other receivables	(76)	-
	<u>2,605</u>	<u>2,811</u>

On 4 May 2004 the Company granted an interest-free loan of LTL 3,000 thousand to one of the major suppliers UAB Girių Bizonas. The maturity of the loan was 5 July 2006. As of 31 December 2006 the loan was fully repaid (the remaining amount of the loan as of 31 December 2005 amounted to LTL 750 thousand).

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10 Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
Cash at bank	12	5
Cash on hand	3	3
	<u>15</u>	<u>8</u>

The Company's foreign currency accounts in AB SEB Vilniaus Bankas and AB Sampo Bankas and future cash inflows into them are pledged to the banks as collateral in relation to the loans (Note 12).

11 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with Lithuanian accounting standards, are compulsory until the reserve reaches 10% of the share capital.

Revaluation reserve

The net increase and decrease in book value of assets that occurred during the initial valuation of property, plant and equipment is accounted for in the revaluation reserve. The revaluation reserve is reduced by the amount of related deferred income tax. The revaluation reserve accounted for in equity is transferred to the retained earnings, when it is realised. The revaluation reserve is realised by forming allowances, writing off and disposing assets as well as using assets by the Company, i.e. the realisable amount of the revaluation reserve is the difference between the depreciation of the revaluated assets and the depreciation computed using the original cost of the assets. In accordance with the Law on Stock Companies of the Republic of Lithuania the revaluation reserve also can be used for the purpose of the increase of share capital.

12 Borrowings

	<u>As of 31 December 2006</u>	<u>As of 31 December 2005</u>
Non-current borrowings		
Bank borrowings	29,618	45,435
Other borrowings	16,389	8,000
	<u>46,007</u>	<u>53,435</u>
Current borrowings		
Current portion of non-current bank borrowings	18,692	8,968
Other current borrowings	-	2,591
	<u>18,692</u>	<u>11,559</u>
	<u>64,699</u>	<u>64,994</u>

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12 Borrowings (cont'd)

Terms of repayment of non-current borrowings are as follows:

Year	As of 31 December 2006	
	Fixed interest rate	Variable interest rate
2007	-	18,692
2008	16,389	6,259
2009	-	6,240
2010	-	5,023
2011	-	9,969
2012	-	2,125
	<u>16,389</u>	<u>48,308</u>

Weighted average interest rates of borrowings outstanding at the year-end:

	2006	2005
Current borrowings	5.0%	4.9%
Non-current borrowings	5.8%	3.8%

Parts of borrowings at the end of the year in national and foreign currencies:

	2006	2005
Borrowings denominated in:		
EUR	35,935	40,127
LTL	28,764	24,867
	<u>64,699</u>	<u>64,994</u>

On 25 February 2003 the Company signed a credit line agreement with AB Sampo Bankas in order to finance the Company's working capital needs. On 30 June 2006 the terms of the agreement were changed. The credit line limit is LTL 12,500 thousand. As of 31 December 2006 the amount of the Company's unused credit line amounted to LTL 125 thousand. The maturity of the credit line is 25 February 2007. The part of the used credit line bears 6-month EUR LIBOR + 1.3% interest rate. On 1 March 2007 the Company signed an additional agreement concerning the prolongation of the loan maturity till 25 February 2008.

On 3 September 2004 the Company signed a loan agreement amendment with AB Sampo Bankas for the amount of EUR 2,540 thousand (the equivalent of LTL 8,770 thousand). The maturity of the last portion of the loan is on 25 February 2010. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 5,370 thousand (as of 31 December 2005 – LTL 7,071 thousand), of which the portion amounting to LTL 1,700 thousand is accounted for under the current portion of non-current loans caption in the Company's financial statements. The loan bears 6-month EUR LIBOR + 1.3% annual interest rate.

On 28 December 2004 the Company signed a loan agreement with AB Sampo Bankas for the amount of EUR 4,650 thousand (the equivalent of LTL 16,056 thousand). The maturity of the last portion of the loan is 28 December 2011. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 14,272 thousand (as of 31 December 2005 – LTL 16,056 thousand), of which the portion amounting to LTL 1,784 thousand is accounted for under the current portion of non-current loans caption in the Company's financial statements. The loan bears 6-month EUR LIBOR + 1.5% annual interest rate.

On 8 August 2005 the Company signed an additional loan agreement with AB Sampo Bankas (Lithuania) and AS Sampo Pank (Estonia) for the amount of EUR 4,924 thousand (the equivalent of LTL 17,002 thousand). The maturity of the last portion of the loan is 28 December 2011. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 16,293 thousand (as of 31 December 2005 – LTL 17,002 thousand), of which the portion amounting to LTL 2,834 thousand is accounted for under the current portion of non-current loans caption in the Company's financial statements. The loan bears 6-month EUR LIBOR + 1.5% annual interest rate.

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12 Borrowings (cont'd)

On 22 December 2006 the Company signed an addendum to the agreement with AB INVALIDA for the amount of LTL 955 thousand. The maturity of the loan is 31 December 2008. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 955 thousand. The loan bears 7% annual interest rate.

On 22 December 2006 the Company signed an addendum to the agreement with AB INVALIDA for the amount of LTL 2,250 thousand. The maturity of the loan is 31 December 2008. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 2,250 thousand. The loan bears 7% annual interest rate.

On 22 December 2006 the Company signed an addendum to the agreement with AB INVALIDA for the amount of LTL 13,184 thousand. The maturity of the loan is 31 December 2008. The outstanding amount of the loan as of 31 December 2006 amounted to LTL 13,184 thousand. The loan bears 7% annual interest rate.

The loans with AB Sampo Bankas (Lithuania) and AS Sampo Pank (Estonia) are subordinated by the main shareholder of the Company AB INVALIDA.

The Company pledged machinery and equipment with a net book value of LTL 48,585 thousand as of 31 December 2006 (LTL 54,754 thousand as of 31 December 2005), the inventories as well as current and future cash inflows into Company's bank accounts in AB Sampo Bankas.

13 Other current and accrued liabilities

	<u>2006</u>	<u>2005</u>
Taxes payable, wages, salaries and social security contributions	1,434	522
Vacation pay accrual and social security	983	983
Operation taxes payable	139	66
Advances	76	4
Other payables and accrued liabilities	1,637	1,364
	<u>4,269</u>	<u>2,939</u>

14 Sales

	<u>2006</u>	<u>2005</u>
Sales of goods	110,246	110,763
Sales of services	43	86
	<u>110,289</u>	<u>110,849</u>

The main customer of the Company is IKEA Supply AG (in 2006 sales are amounting to LTL 88,461 thousand). The Company is working with this customer on the basis of the short-term agreements and is not guaranteed for the volume of sales and the prices in 2007.

15 Cost of sales

	<u>2006</u>	<u>2005</u>
Materials	67,193	63,883
Wages, salaries and social security	19,471	19,311
Depreciation	7,611	5,729
Other production expenses	6,810	6,833
Acquired furniture and materials	1,984	1,337
	<u>103,069</u>	<u>97,093</u>

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16 Operating expenses

	<u>2006</u>	<u>2005</u>
Wages, salaries and social security	3,313	3,512
Depreciation and amortisation	889	770
Allowance for inventories	840	-
Allowance for trade receivables	752	-
Employee insurance	242	-
Utilities and communications	216	279
Transportation expenses	215	355
Security expenses	202	249
Business trips expenses	78	92
Allowance for other receivables	76	-
Charity and support expenses	43	86
Other	2,116	1,960
	<u>8,982</u>	<u>7,303</u>

17 Other operating income (expenses), net

	<u>2006</u>	<u>2005</u>
Rental income	360	233
Result from disposal of non-current assets	(103)	(3)
Other income	967	1,047
Other (expenses)	(936)	(1,618)
	<u>288</u>	<u>(341)</u>

18 Income (expenses) from financial and investment activities, net

	<u>2006</u>	<u>2005</u>
Interest (expenses)	(3,087)	(1,672)
Foreign currency exchange gain (loss)	(71)	(21)
Other financial income (expenses)	-	39
	<u>(3,158)</u>	<u>1,654</u>

19 Income tax

	<u>2006</u>	<u>2005</u>
Components of the income tax expense (income)		
Income tax expenses for the reporting year	-	1,000
Deferred tax (income) expense	(302)	(196)
Income tax (income) expenses recorded in income statement	<u>(302)</u>	<u>804</u>

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19 Income tax (cont'd)

	2006	2005
Deferred income tax asset		
Allowance for accounts receivable	131	7
Accrued expenses	152	197
Allowance for inventories	135	-
Current year taxable loss	151	-
Depreciation	-	3
Other	-	9
Deferred income tax asset before valuation allowance	569	216
Less: valuation allowance	(291)	-
Deferred income tax asset, net	<u>278</u>	<u>216</u>
Deferred income tax liability		
Revaluation of non-current assets	1,414	1,451
Investments	608	811
Deferred income tax liability	<u>2,022</u>	<u>2,262</u>
Deferred income tax liability, net	<u>1,744</u>	<u>2,046</u>

The Company's management considers that a part of deferred tax asset will not be realised, therefore realisation allowance for part of it was formed in 2006 and 2005.

Deferred income tax asset and liability were accounted at the rates which will be valid when it is planed to realise the deferred income tax, i.e. in 2007 – 18 %, in 2008 and later - 15%.

The income tax differs from theoretical amount, which would be calculated by applying the basic income tax rate to the Company's profit before tax:

	2006	2005
Profit (loss) before tax	(5,619)	4,250
Income tax computed at statutory tax rate (in 2006 - 19%, in 2005 – 15%)	(1,068)	638
The influence of change in income tax rate	-	(109)
Change in valuation allowance for deferred tax asset	(66)	(216)
Permanent differences	832	491
Income tax expenses	<u>(302)</u>	<u>804</u>

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20 Earnings per share

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

	<u>2006</u>	<u>2005</u>
Net profit for the year	(5,317)	3,446
Weighted average number of shares in issue (thousand)	3,886	3,886
Basic earnings (loss) per share (in LTL)	<u>(1.37)</u>	<u>0.89</u>

21 Dividends per share

	<u>2006</u>	<u>2005</u>
Dividends approved	3,886	3,886
Weighted average number of issued ordinary shares (thousand)	3,886	3,886
Dividends per share (in LTL)	<u>1</u>	<u>1</u>

22 Financial assets and liabilities and risk management

Credit risk

The Company has significant concentration of trading counterparties. The main customer of the Company – IKEA Supply AG – on 31 December 2006 account for approximately 53% (approximately 75% as of 31 December 2005) of the total Company's trade receivables.

The Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Management of the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

Interest rate risk

The major part of the Company's borrowings is with variable rates, related to EUR LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

Liquidity risk

The Company'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. The Company's liquidity and quick ratios as of 31 December 2006 were 0.65 and 0.27 respectively (0.88 and 0.36 as of 31 December 2005 respectively). As described in Note 12 in the beginning of the year 2007 the Company prolonged the maturity of the credit line till 25 February 2008.

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22 Financial assets and liabilities and risk management (cont'd)

Foreign exchange risk

Major currency risks of the Company occur due to the fact that the Company borrows foreign currency denominated funds as well as is being involved in imports and exports. The Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Company does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged. Monetary assets and liabilities stated in various currencies as of 31 December 2006 were as follows:

	<u>Assets</u>	<u>Liabilities</u>
LTL	7,393	42,104
EUR	2,124	38,450
USD	71	-
SEK	-	1,322
Total	<u>9,588</u>	<u>81,876</u>

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other 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 accounts receivable, current trade accounts payable and short-term borrowings approximates fair value.
- (b) The fair value of non-current debt 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.

23 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 Company and transactions with them during 2006 and 2005 and the balances for the end of the years were as follows:

2006	<u>Purchases</u>	<u>Sales</u>	<u>Receivables</u>	<u>Payables</u>
UAB Girių Bizonas	12,077	3	-	1,312
AB INVALIDA	655	2	-	16,389
UAB INVALIDA REAL ESTATE	120	3	-	27
AB FMĮ FINASTA	34	1	-	7
UAB INVALIDA SERVICE	-	1	-	-
AB Minija	-	-	34	-
	<u>12,886</u>	<u>10</u>	<u>34</u>	<u>17,735</u>

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23 Related party transactions (cont'd)

2005	Purchases	Sales	Receivables	Payables
AB FMĮ FINASTA	25	-	34	2
AB INVALIDA	302	-	-	10,893
AB Minija	-	29	-	-
UAB Girių Bizonas	-	-	750	-
UAB INVALIDA REAL ESTATE	154	111	-	13
UAB INVALIDA SERVICE	5	-	-	-
UAB Minija	-	-	34	-
AB Valmeda	-	1	-	-
AB Vilmakas	-	1	-	-
Other	-	2	-	-
	486	144	818	10,908

Remuneration of the management and other payments

The Company's management remuneration amounted to LTL 930 thousand in 2006 (LTL 952 thousand in 2005). 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.

24 Subsequent events

There were no significant events in the Company after the date of the financial statements, except for the change of the credit line maturity described in Note 12.

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FOR THE YEAR ENDED 31 DECEMBER 2006

Independent Auditor's Review Report to the Shareholders of AB Vilniaus Baldai

We have reviewed AB Vilniaus Baldai Annual Report for the year ended 31 December 2006. The report is the responsibility of the Company's management. Our responsibility is to present a report on the Annual Report based on our review.

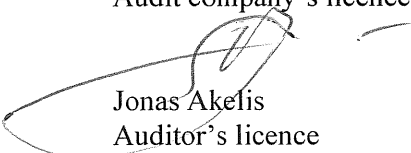
We have audited the financial statements of AB Vilniaus Baldai (further "the Company") for the year ended 31 December 2006 in accordance with International Standards of Auditing. On 6 April 2007 we have expressed qualified opinion on these financial statements for the performing valuation of buildings with insufficient frequency and for the goodwill, which occurred during the acquisition of shares of UAB Girių Bizonas, accounted for not based on fair values of the net assets acquired.

Our review of the Annual Report for the year ended 31 December 2006 was limited primarily to analytical procedures and discussions with the Company's personnel and was limited to financial information only. The scope of review provides less assurance than the audit for the purpose of expressing an audit opinion on this report. Accordingly, we do not express an audit opinion.

The Annual Report for the year ended 31 December 2006 includes operating plans and forecasts. The actual results in the future might be different from the current management's estimations as events and circumstances frequently do not occur as expected.

Based on our review, we have not noted any material inconsistencies between the financial information included in the Annual Report it and the financial statements of AB Vilniaus Baldai for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514



Jonas Akelis
Auditor's licence
No. 000003

The review was completed on 6 April 2007.

GENERAL INFORMATION ABOUT THE COMPANY:

Name	Joint-Stock company „Vilniaus baldai“, hereinafter referred to as the Company
Legal form	Joint-Stock Company
Code	121922783
VAT payer's code	LT219227811
Authorized capital	Litas 15 545 068, divided into 3 886 267 ordinary registered shares of Litas 4 face value each
Headquarters address	Savanoriu avenue 178. LT-03154 Vilnius
Telephone No.	(+370 5) 252 57 00
Fax No.	(+370 5) 231 11 30
Email address	info@vilniausbaldai.lt
Internet website	www.vilniausbaldai.lt
Date and place of registration	9 February 1993, the Board of Administration of the city of Vilnius
Register where Company's data is accumulated and kept in	Legal Persons Register
Nature of the Company's main activities	Design, production and sales of office, bedroom, living room and hall furniture

1. THE COMPANY'S OBJECTIVE SITUATION, THE COMPANY'S ACTIVITY PERFORMANVE AND DEVELOPMENT REVIEW, DESCRIPTION OF THE COMPANY'S MAIN RISKS AND UNCERTAINTIES

Company's conditions can be characterized as satisfactory on the upgrade, the scope of production and work efficiency is under constant increase. At the end of the year some changeovers oriented to cost decrease and work efficiency increase were started.

Main risks the Company faces with:

Factors related to economic risk.

In 2006 Company's AB „Vilniaus baldai“ sales to its main buyer, Sweden concern „IKEA“, reached 80,2 percent from total Company's sales (in 2005 – 75 percent, in 2004. – 80 percent).

The Company is competing with world furniture producers, including Chinese. The advantage company has against Chinese producers are good geographical location, logistics advantage (shorter delivery term), high quality of the products.

AB „Vilniaus baldai“ has concluded long-term agreements with its suppliers. Alternative suppliers have been selected for each material to be supplied.

Political risk factors. Essential changes in business environment are related to the state taxation reform. Within two years the profit amount received by local companies have been additionally taxed upon the Temporary Law on Social Tax of the Republic of Lithuania. According to the aforementioned Law the Company's profit received in 2006 was additionally taxed by 4 percent tax, in 2007 by 3 percent. All the aforementioned has a direct effect on the amount of Company's net profit. There are no any requirements set and restrictions defined by the state in regard with emitter activity.

Social risk factors. In recent years salaries are increasing in Lithuania. It causes the need of higher work efficiency within company. Much attention in the Company is paid to improvement of labour conditions, training arranged for the Company's employees and their qualification improvement. Increasing production capacity, increase in sales have conditioned the increase in salary amount. In 2006 salaries' average increase was equal to 9,2 percent. Company's trade unions are actively functioning while protecting the employee's interests.

Technical and technological risk factors. The company has implemented the most modern production equipment. There is need for further modernization in auxiliary processes. Condition of physical and moral main means is good and it does not create any risk for the Company's activities. AB „Vilniaus baldai“ is constantly investing into modernization of its equipment and implementation of advanced technologies.

Ecological risk factors. Environment protection management system has been implemented at the Company meeting requirements of ISO 14001 standard. The essence of the system mentioned is related to management of environment protection issues and constant improvement of relevant activity. The Company's activities have been carried out for purposive improvement of the process of production regarding environment protection in order to manage the impact on environment made by materials and raw materials used and to ensure that the suppliers of appropriate services and products would meet the requirements related to environment protection management system. In 2006 AB „Vilniaus baldai“ paid a environment pollution tax in amount of Litas 63 thousand for the waste utilization services provided. There were no any production restrictions related to environment pollution.

Reimbursement of credits. Reimbursement of credits shall be effected according to credit reimbursement schedules agreed. All payments payable to bank have been effected on time.

2. ANALYSIS OF FINANCIAL AND NON-FINANCIAL ACTIVITIES, INFORMATION RELATED TO ENVIRONMENT AND PERSONNEL ISSUES

Indexes characterizing the Company's activities in 2004–2006

	2006	2005	2004
Net profitability = net profit /sales * 100	-4.82%	3.11%	8.02%
Average property repayment ROA = net profit / (property at the beginning of the period + property at the end of the period) /2 *100	-4,66%	3.48%	11.78%
Return on equity ROE = net profit / equity	-20.26%	9.73%	22.46%
Net profit per share EPS = net profit / number of shares	-1.37	0.89	2.07
Debt coefficient = obligations /property	0.76	0.70	0.55
Debt-ownership coefficient = obligations / own capital	3.19	2.34	1.23
General liquidity coefficient = short-term property /short-term obligations	0.65	0.88	0.81
Property turnover = sales /property	1.00	0.94	1.26
The share bookkeeping value = own capital / number of shares	6.75	9.12	9.23
Turnover (thousands LTL)	110 289	110 849	110 472
Gross profit (thousands LTL)	7 220	13 756	19 376
Net profit (thousands LTL)	-5 317	3 446	8 054
EBITDA (millions LTL)	6.0	11.7	13.6
Dividends per one share (for previous accounting period)	1 LTL	1 LTL	1 LTL
Price and profit proportion per one share P/E	-13.2	40.4	17.87
The lowest share price	17.00 LTL	33.33 LTL	18.65 LTL
The highest share price	37.02 LTL	47.50 LTL	37.20 LTL
Closure price	18.10 LTL	36.00 LTL	37.00 LTL
Capitalization (thousands LTL)	70 341	139 906	143 792

PRODUCTION AND REALIZATION

AB „Vilniaus baldai“ is involved in designing, manufacturing of framed furniture. Company's products are being manufactured from chipboards, with the use of modern in western countries honeycomb filling technology; pieces of furniture made according to the technology mentioned are lighter, but great looking. This technology allows to use less raw materials and to get stable production quality. Every year when creating a new collection, the Company is trying to wider users' needs and tendencies. The company is introducing new planning system.

Modern equipment purchased all over the world from well-known manufacturers, such as Holzma, Homag, Burkle, Weeke, Wikoma and others, allow to produce pieces of furniture covered with different types of planed lacquered veneer; a small amount of pieces of furniture made of laminated chipboards.

The Company, when producing carcass furniture, is focused on a large-scale and mass production and sells its products through trade partners that should meet the main requirement to ensure large-scale sales with narrow assortment of products.

The scope of the Company's production in values in 2004–2006

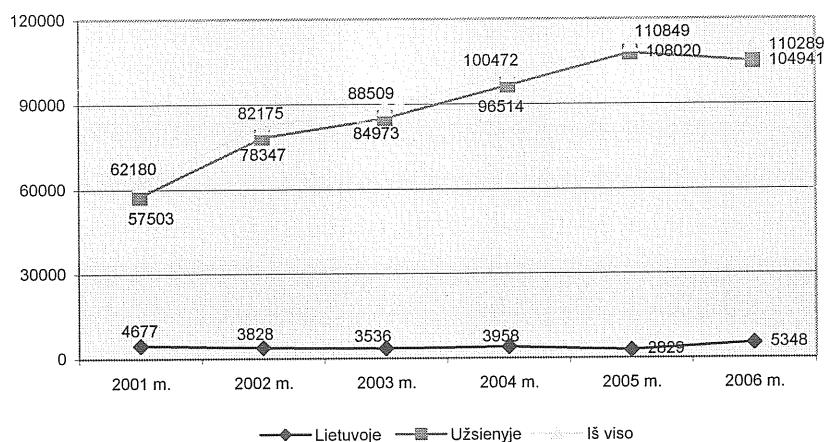
PRODUCTS	2004		2005		2006	
	THOUS.LITAS	PERCENT	THOUS.LITAS	PERCENT	THOUS.LITAS	PERCENT
Pieces of furniture	98 413	99,54	110 502	99,65	105 845	98,47
Other products	459	0,46	388	0,35	1644	1,53
Total	98 872	100,00	110 890	100,00	107 489	100,00

The scope of Company's production in digits in 2004–2006

PRODUCT NAME	2004	2005	2006
Tables	2 561	184	91
Wardrobes	125 012	108 463	117 870
Cabinets	3 310	687	43
Sections	306	34	0
Beds	107 746	113 538	75 417
Chests of drawers	11 237	22 523	43 056
Book shelves and shelve stands	29 975	36 614	40 701

Sales of products upon markets in 2004–2006

	2004		2005		2006	
	THOUS. LT	PERCENT	THOUS. LT	PERCENT	THOUS. LT	PERCENT
Sales in Lithuania	3 958	3,9	2 829	2,6	5 348	4,8
Abroad	96 514	96,1	108 020	97,4	104 941	95,2
Total	100 472	100,0	110 849	100,0	110 289	100,0



Company's sales in 2001–2006, in Litas

SUPPLIES

AB „Vilniaus baldai“ has concluded long-term agreements with its suppliers. Alternative suppliers were selected regarding main materials to be delivered. Main materials company purchase from local Lithuanian producers. Main suppliers are UAB “Girių bizonas“ and AB „Grigiškės“. Purchasing from local suppliers is conditioned by cheap transportation and good relations with main suppliers.

EMPLOYEES

A number of vacancies at the Company was decreased within 2006 and this decrease was based on increase in labour efficiency. At the end of 2005, 1 084 employees worked at the Company and in December 2006 a number of Company's employees was equal to 842.

List of average number of Company's employees in 2004– 2006.

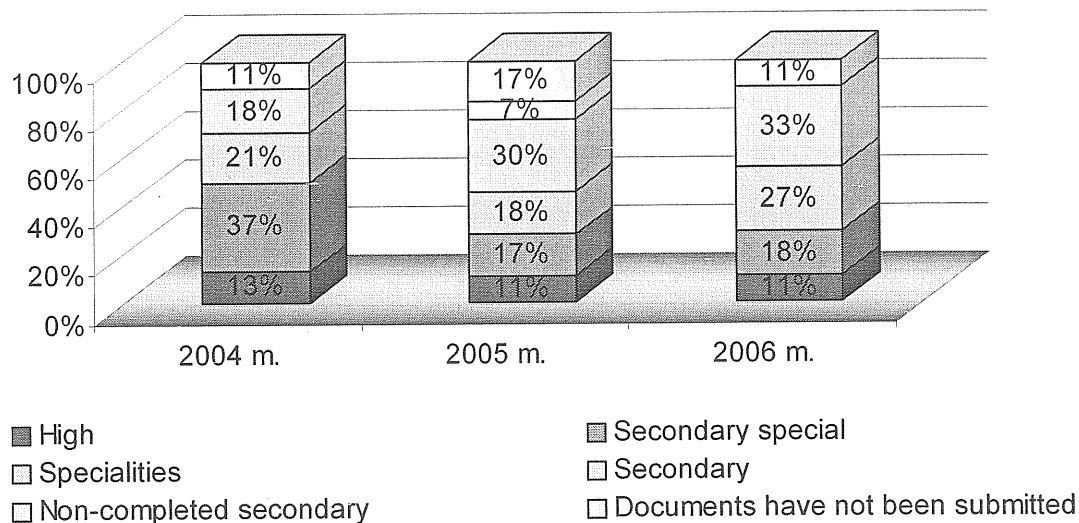
	2004	2005	2006
Number of employees	879	1 061	950
Executive employees and specialists	100	116	93
Workers	779	945	857

Average age of Company's employees is 40 years old. Increasing production capacity, increase in sales have conditioned the increase in salary amount. In 2006 salaries' average increase was equal to 9,2 percent. Every year much attention is paid and means are allocated for improvement of labour conditions and for employees' training arrangement and qualification raise.

The company participates in European Union support project “Improving of association “Lietuvos mediena” member companies' employees expertise”, total volume of which is 8 034 561 LTL. AB “Vilniaus baldai” portion – 2 167 725 LTL.

Company's employees' average monthly wages amount in 2004– 2006.

	2004	2005	2006
Executive employees and specialists	2 392,4	2 525,3	2 738,4
Workers	1 114,9	1 223,0	1 381,5
Total	1 328,2	1427,6	1 558,9



Employees' grouping according to education received

3. REFERENCES AND ADDITIONAL EXPLANATIONS REGARDING DATA CONTAINED IN ANNUAL FINANCIAL ACCOUNTABILITY;

Data contained in annual financial accountability and Explanatory Note is complete, comprehensive and does not need any additional explanations.

4-7. TOTAL NUMBER OF COMPANY'S SHARES OWNED AND ACQUIRED AS WELL AS THEIR FACE VALUE AND THE PART OF AUTHORIZED CAPITAL CONSISTED OF THE COMPANY'S SHARES. NUMBER OF SHARES ACQUIRED AND TRANSFERRED DURING REPORTING PERIOD AS WELL AS THEIR FACE VALUE AND THE PART OF AUTHORIZED CAPITAL CONSISTED OF THESE SHARES. INFORMATION ABOUT PAYMENT FOR THE OWN SHARES IN CASE THEY HAVE BEEN PURCHASED OR TRANSFERRED FOR APPROPRIATE PAYMENT. BACKGROUNDS FOR ACQUISITION OF COMPANY'S OWN SHARES WITHIN THE REPORTING PERIOD.

During reporting period the Company had no own shares, did not receive or transfer any shares as well.

8. INFORMATION ABOUT THE COMPANY'S AFFILIATES AND REPRESENTATIVE OFFICES

The Company has no affiliates and representative offices.

9. IMPORTANT EVENTS WHICH TOOK PLACE FROM THE END OF THE PREVIOUS YEAR

In autumn of 2006 there was a change of main managers of the company – chief executive officer, production director and head of production No 2.

From the end of the reporting financial year up to approval of annual notice there were no other important events at the Company.

10. COMPANY'S ACTIVITY PLANS AND FORECASTS

In 2007 the Company is planning to receive from sales Lit 139,5 million, net profit in amount of Lit 0,5 million and EBITDA in amount of Lit 12,7 million.

11. INFORMATION ABOUT COMPANY'S RESEARCH AND DEVELOPMENT ACTIVITY

The Company has not carried out any research or development activity. The Company used the Customers' research results.

12. WHEN A COMPANY USES FINANCIAL MEANS AND IN CASE THIS IS IMPORTANT WHILE VALUATING THE COMPANY'S ASSETS, OWN CAPITAL, OBLIGATIONS, FINANCIAL CONDITION AND ACTIVITY RESULTS, THE COMPANY DISCLOSES TARGETS RELATED TO FINANCIAL RISK MANAGEMENT, PROTECTION MEANS REGARDING THE MAIN GROUPS OF EXPECTED TRANSACTIONS THE PROTECTED TRANSACTIONS ACCOUNTING IS APPLIED TO AND THE LEVEL OF THE COMPANY'S PRICES' RISK, CREDIT RISK, LIQUIDITY RISK AND MONETARY FLOWS RISK.

Company has not used financial means which is important while valuating the Company's property, obligations, financial condition and activity results.

13. DISCLOSURE FORM CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE REGULATED MARKET IS PRESENTED IN THE ANNEX No. 1.

Chief Executive Officer

Nerijus Pacevičius