# Agrovaldymo grupė AB
# Annual prospectus – report for the year ended 31 December 2006

CONTENT

# I. GENERAL PROVISIONS

***1. Accounting period covered by the Annual Prospectus***

The Report has been prepared for the year 2006 (the financial year of the company corresponds to the calendar year).

***2. Key data on the issuer***

| | |
|---|---|
| Name of the company: | Agrovaldymo grupė AB (hereinafter – AVG or the Company) |
| Share capital: | LTL 200.000 |
| Address of headquarters: | Smolensko g. 10, LT-03201 Vilnius, Lietuva |
| Telephone: | (8~5) 233 53 40 |
| Fax: | (8~5) 233 53 45 |
| E-mail address: | info@agrovaldymas.com |
| Website: | www.agrovaldymas.com |
| Legal-organizational form: | Legal body, joint stock company |
| Place and date of registration: | 25 June 2003, Vilnius |
| Register code: | 1262 64360 |
| Register number: | AB2003-926 |

Registrant of the Register of legal bodies: State Enterprise Centre of registers

***3. Nature of main activity***

| | |
|---|---|
| Branch of Economy: | Agriculture |
| Main production: | Raw milk production and sale, different grain and rape growing and sale, rent of owned agricultural land. |

***4. Information on where and when the Report and the documents, on which the Report is based, are publicly available and the name of the mass media means***

The report is available during working days from 8 a.m. to 17.00 at the headquarters of Agrovaldymo grupė AB at the adress: Smolensko st. 10, Vilnius, or at the Company‘s internet website: www.agrovaldymas.com.

The announcements of the Company, including the information and other documents related to the Annual General meeting, also the information and other documents related to liquidation or reorganisation of the Company, minutes of the shareholder and Board meetings, other announcements and documents, which according to the law of Republic of Lithuania, the Statutes of the Company ant the decisions of the Management have to be announced publicly are announced in the daily newspaper „Respublika“ or delivered to each shareholder and other person personally – either by registered mail, or by signed delivery.

Announcements of the Company are placed on the Vilnius stock exchange CNS system and the news agencies.

***5. Persons in charge of the information contained in the Prospectus***

5.1. Responsible for the Prospectus are the management of the Company, employees and the Head of administration:

Valentas Šulskis, Agrovaldymo grupė AB Director, tel. (8~5) 233 53 40, fax. (8~5) 233 53 45.
Domantas Savičius, Agrovaldymo grupė AB Finance director, tel. (8~5) 233 53 40, fax. (8~5) 233 53 45.

5.2. Consultants:

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***6. Confirmation of the members of Issuer's managing bodies, its employees and head of administration responsible for the preparation of this report that information contained herein is true and there are no suppressed facts which could have an impact on investors' decisions to buy or sell the Company's securities, as well as the market price of those securities and their valuation.***

Agrovaldymo grupė AB, represented by the Director Valentas Šulskis and Finance Director Domantas Savičius, confirm that the information contained in the Prospectus is true and correct and that there are no concealed facts, which might have essential influence on the decisions of investors.

Agrovaldymo grupė AB
Director ............................................................ Valentas Šulskis

28 May 2007

A.V.

Agrovaldymo grupė AB
Finance Director ............................................................ Domantas Savičius

Prospectus prepared in Vilnius, in May 2007

## II. INFORMATION ABOUT THE SHARE CAPITAL OF THE ISSUER AND THE ISSUED SECURITIES

### *7. Share capital*

7.1. Share capital registered in the Register of companies

The share capital registered in the Register of the companies is LTL 200.000. The share capital is composed of 200.000 ordinary shares with nominal value of LTL 1 each. All shares are fully paid.

7.2. Information on the prospective increase of the share capital by converting issued debt securities or derivative securities into shares

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### *8. Shareholders*

Total number of shareholders as at 4 May 2007 was 11 (eleven). The shareholders owning more than 5 per cent of all the companies shares:

| Name, surname / name of the company | Votes held by shareholder | Shares held by shareholder |
|---|---|---|
| ŽIA valda UAB | 62.000 | 31,00% |
| Invalda AB [1)] | 42.920 | 21,46% |
| Kelmės pieninė AB | 47.689 | 23,84% |
| Mantas Juozaitis | 18.940 | 9,47% |
| Mindaugas Juozaitis | 13.060 | 6,53% |

[1] on 30 June 2006 Pozityvios investicijos AB were merged into Invalda AB.

### *9. Key characteristics of the publicly traded securities*

The company has not issued any shares for public circulation.

### *10. Data on non-publicly traded shares*

The company has not issued any shares for non-public circulation.

***11. Data on depository notes issued on the basis of shares***

The company does not have any depository notes issued on the basis of shares.

***12. The main characteristics of debt securities issued for public circulation of securities***

The Company issued LTL 10 million of bonds into public trading on 21 June 2006:

| | |
|---|---|
| Name of issued securities | 366 days duration bonds |
| Number of issued bonds | 100.000 units |
| Nominal value | LTL 100 or EUR 28,9620 |
| Total nominal value | LTL 10.000.000 or EUR 2.896.200 |
| Price of emission | LTL 92,2183 – 92,5550 or EUR 26,7083 – 26,8058 |
| Currency of emission | LTL or EUR |
| Interest rate | 8 % |
| Interest amount | LTL 7,7817 – 7,445 for one bond |
| Redemption date | 22 June 2007 |
| Start of subscription period | 2 June 2006 |
| End of subscription period | 20 June 2007 |
| Payment date for bonds | On the day of subsription |
| Interest payment date | 22 June 2007 |
| Type of securities emission | Public emission |
| Restrictions on transfers of securities | None |
| Conversion of securities | None |
| | |

All payments related to the payment for bonds emission, redemption of bonds and payment of interest are made in LTL or EUR. The bonds can not be redeemed before the redemption date neither on demand by the Issuer, nor the investor.

***13. Data on non-publicly traded debt securities***

The company has not issued debt securities for non-public circulation.

***14. Securities that do not mark participation in the share capital, but the circulation of which is governed by the Law on the Securities Market, with the exception of debt securities***

The company has not issued any securities that do not mark participation in the share capital.

# III. Data on the secondary circulation of the securities issued by the issuer

### *15. Securities included into the trade lists of stock exchanges*

Since 21 June 2006, the 366 days maturity 100.000 units of Companies bonds with nominal value LTL 100 each are included in the Vilnius Stock Exchange debt securities market.

### *16. The sales of the Issuer's securities on exchanges and other organized markets*

16.1. The sales of the Issuer's securities on VSE

During the period of interest, the Companies shares were not traded on the Vilnius Stock Exchange (herinafter – VSE).

Trading information of Agrovaldymo grupė AB bonds in VSE:

| Reporting period | Price, LTL | | | Date of last session | Total turnover | |
|---|---|---|---|---|---|---|
| | max | min | Last session | | Units | LTL, millin |
| 2006 m. | 8,1795 | 7,6000 | 8,1795 | 2006.12.29 | 3.052 | 0,29 |

16.2. The sales of the Issuer's securities on other exchanges

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16.3. The sales of the Issuer's securities on other organised markets

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### *17. Capitalisation of securities*

The capitalisation of bonds issued by the Company as at 31 December 2006 amounted to LTL 9,53 million.

### *18. Sales of Issuer's securities outside the Stock Exchange*

There were no organised trading of Company's securities (shares or bonds) outside the VSE.

### *19. Data on own shares purchases.*

The Company has not purchased it's own shares.

### *20. Announcement of tender offers*

During 2006 no official offers from the third parties to purchase ordinary registered shares of the Agrovaldymo grupė AB were announced. Neither has Agrovaldymo grupė AB announced official offers to purchase securities of other Issuers.

### *21. Issuer‘s paying agents*

None.

### *22. Agreements with the mediators of securities public circulation*

The Company and FMĮ Orion Securities UAB (A. Tumėno st. 4, B korpusas, LT-01109, Vilnius) signed an agreement regarding handling of Bondholder accounts.

The Company and FMĮ Finasta AB (Konstitucijos pr. 23, Vilnius) signed an agreement regarding handling of Shareholders accounts.

## IV. Data on the activity of the issuer

### *23. Legal grounds for the Issuer‘s activities*

Agrovaldymo grupė AB in its operation follows the listed legal acts:

- Law on joint stock companies of the Republic of Lithuania;
- Law on the securities of the Republic of Lithuania;
- Law on the financial instruments market of the Republic of Lithuania;
- Other laws of the Republic of Lithuania as well as Governmental regulations;
- The Bylaws of the Company and its amendments.

### *24. Participation in the associated structures*

The subsidiary agricultural entities of Agrovaldymo grupė AB are members of the following cooperatives and associations:

| **Name of associated structure** | Lietuvos žemės ūkio bendrovių asociacija | Žemės Ūkio Kooperatyvas "Lietuviškas pienas" | Žemės Ūkio Kooperatyvas "Džiaugsmelis" | Žemės Ūkio Kooperatyvas "Kėdainių krašto cukriniai runkeliai" | Lietuvos žalųjų galvijų gerintojų asociacija | Lietuvos kiaulių augintojų asociacija | Lietuvos juodmargių galvijų gerintojų asociacija | Žemės ūkio bendrovių asociacija"Stambus ūkis" |
|---|---|---|---|---|---|---|---|---|
| **Name of subsidiary** | | | | | | | | |
| Smilgių ŽŪB | | Member | | | | | | Member |
| Skėmių ŽŪB | Member | Member | | Member | | Member | Member | Member |
| Želsvelės ŽŪB | | Member | | | | | | Member |
| ŽŪB "Spindulys" | | Member | | | | | | Member |
| Mantviliškio ŽŪB | | Member | | Member | | | | Member |
| ŽŪK "AVG Lankesa" | | Member | | | | | | Member |
| Dumšiškių ŽŪB | | Member | | | | | | Member |
| ŽŪB "Kairėnai" | | Member | | Member | Member | | | Member |
| Žadžiūnų ŽŪB | | Member | Member | | Member | | | Member |
| ŽŪB "Vėriškės" | | Member | | | Member | | | Member |
| Nausodės ŽŪB | | Member | | | | | | Member |
| ŽŪB "Jurbarkai" | | Member | | | | | | Member |
| Eimučių ŽŪB | | Member | Member | | | | | Member |
| ŽŪB "Alanta" | | Member | | | Member | Member | Member | Member |

### *25. Short history of the Issuer*

Agrovaldymo grupė AB is an investment company established for investments into Lithuanian agricultural sector on the 25 June 2003.

Agrovaldymo grupė AB invests in:

- Acquisition of agricultural entities;
- Acquisition of land for owned agricultural entities;
- Modernisation of agricultural entities;

The Issuer currently owns fourteen agricultural entities situated all across Lithuania:

| Company | Year of acquisition | Operations |
|---|---|---|
| Eimučių ŽŪB | 2003 | The entity cultivates 945 hectares of land, has a cattle herd of 250 heads. The company strives to increase productivity and production volumes of various grain and rapes growing. There are 20 employees working in the company. |
| Panevėžio raj. Smilgių ŽŪB | 2004 | The entity cultivates 1.450 hectares of land, has a herd of milking cows of 504 heads and cattle herd of 543 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 72 employees working in the company. |
| Žadžiūnų ŽŪB | 2004 | The entity cultivates 1.060 hectares of land, has a herd of milking cows of 208 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 42 employees working in the company. |
| Želsvelės ŽŪB | 2004 | The entity cultivates 2.250 hectares of land, has a herd of milking cows of 563 heads and cattle herd of around 600 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 106 employees working in the company. |
| ŽŪB „Spindulys“ | 2004 | The entity cultivates 1.996 hectares of land, has a herd of milking cows of 194 heads and cattle herd of 189 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 67 employees working in the company. |
| Raseinių raj. Dumšiškių ŽŪB | 2005 | The entity cultivates 985 hectares of land, has a herd of milking cows of 171 heads and cattle herd of 187 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 53 employees working in the company. |
| Anykščių raj. Nausodės ŽŪB | 2005 | The entity cultivates 1.123 hectares of land, has a herd of milking cows of 231 heads and cattle herd of 259 heads. The company strives to increase milk productivity and |

| | | |
|---|---|---|
| | | production volumes. There are 45 employees working in the company. |

| Company | Year of acquisition | Operations |
|---|---|---|
| Kėdainių raj. Mantviliškio ŽŪB | 2005 | The entity cultivates 1.165 hectares of land, has a herd of milking cows of 183 heads and cattle herd of 189 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 53 employees working in the company. |
| ŽŪK „AVG Lankesa“ | 2005 | The entity cultivates 1.695 hectares of land, has a herd of milking cows of 273 heads and cattle herd of 342 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 47 employees working in the company. |
| ŽŪB „Vėriškės“ | 2005 | The entity cultivates 1.042 hectares of land, has a herd of milking cows of 241 heads and cattle herd of 267 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 60 employees working in the company. |
| ŽŪB „Kairėnai“ | 2005 | The entity cultivates 657 hectares of land, has a herd of milking cows of 151 heads and cattle herd of 351 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 32 employees working in the company. |
| Jurbarko raj, Jurbarkai ŽŪB | 2006 | The entity cultivates 1.228 hectares of land, has a herd of milking cows of 235 heads and cattle herd of 476 heads. The company strives to increase milk productivity and production volumes. There are 48 employees working in the company. |
| Skėmių ŽŪB | 2006 | The entity cultivates 1.517 hectares of land, has a herd of milking cows of 411 heads and cattle herd of 624 heads. The company strives to increase milk productivity and production volumes, various grain and rapes growing. There are 99 employees working in the company. |
| Alantos ŽŪB | 2006 | The entity cultivates 494 hectares of land, has a herd of milking cows of 158 heads and cattle herd of 257 heads. The company strives to increase milk productivity and production volumes. There are 35 employees working in the company. |

The subsidiary agricultural companies are of different development level, have different production potential, and area of cultivated land. The aim of Agrovaldymo grupė AB is to pick the most optimal path for each subsidiary development in order to maximize production and net returns. The long – term goal of Agrovaldymo grupė AB is to gather a strong group of agricultural entities, which would produce high quality primary agricultural production, have a modern management structure and control over 30 000 hectares of cultivated land. The group would be constantly growing, advancing and effective – attractive to suppliers, customers and employees.

The Group does not seek short-term profits, rather, by making long-term investments into subsidiary entities Agrovaldymo grupė AB ensures stable and permanent expansion of business activities, establishes long-term goals and strategies for the companies development, employs the best specialists and provides with best working conditions. Agrovaldymo grupė AB, by following own mission, also ensures, that the agricultural sector of Lithuania growns and becomes stronger and more competitive in the EU.

In January – March of 2007, Agrovaldymo grupė AB acquired Žemės vystymo fondas companies group (hereinafter – ŽVF group). ŽVF group activities are closely connected to the Group activities, as most of the land acquired by ŽVF group is rented to the agricultural entities of the Group. Apart from that the ŽVF group is the largest land owner in Lithuania, currently owning around 9.000 ha and renting it to the farmers and other agricultural entities. In total, after merger of the Company with ŽVF group, Agrovaldymo grupė AB managed over 23.500 ha of land.

According to the law of Republic of Lithuania, the legal persons can not own more than 500 ha. As the Group has a goal of owning not less than 30.000 ha by the end of 2007 (and around 50.000 ha in 2010), so at the moment there already are 18 land buying entities established, which belong to Agrovaldymo grupė AB. The merger was approved by the shareholders of both groups of companies as the goals of both groups of companies complemented each other. The merger enabled optimisation of management and administration process, and increased efficiency.

### *26. Description of production (services)*

Agrovaldymo grupė AB is an investment company established for investments into Lithuanian agricultural sector on the 25 June 2003. Agrovaldymo grupė AB focuses on: (1) acquisition of agricultural entities, (2) acquisition of land for owned agricultural entities, and (3) modernisation of agricultural entities.

The controlled companies produce milk, various meat and meat products, grow various grain cultures, rapes and sugarbeets. The goal of the Group is to concentrate on the dairy activities and most profitable plant growing activities (rapes and wheat).

| Revenue breakdown, LTL thousand | 2005 | 2006 |
|---|---|---|
| **DAIRY** | **7.797** | **14.069** |
| **PLANT-GROWING** | **9.889** | **7.558** |
| Grain cultures | 5.407 | 3.885 |
| Rapes | 1.282 | 1.087 |
| Sugar beets | 1.854 | 1.433 |
| Other revenues | 1.346 | 1.153 |
| **MEAT** | **5.339** | **6.375** |
| Cattle sales | 1.724 | 2.899 |
| Pig sales | 844 | 1.135 |
| Operations of meat processing company | 2.771 | 2.341 |
| **Total revenues** | **23.025** | **28.022** |

Main financial ratios of the Group:

| | **2005** | **2006** |
|---|---|---|
| Equity ratio, per cent | 31,9% | 45,1% |
| Liquidity ratio | 1,05 | 0,87 |
| Acid test ratio | 0,77 | 0,51 |
| Average ROA, per cent | 15,67% | 9,34% |
| Average ROE, per cent | 32,65% | 15,81% |
| Gross margin | 22,9% | 17,36% |

### *27. Sale markets*

Agrovaldymo grupė AB specifically focuses on investment in Lithuanian agricultural sector, without conducting any activities abroad.

### *28. Supply*

Agrovaldymo grupė AB companies have the raw materials delivered from the suppliers based in Lithuania. The largest of which are: Kemira GrowHow UAB, Litagros chemija UAB, Agrokoncernas UAB (fertilizers and pesticides), Lukoil Baltija UAB, Šoklys UAB (gasoline and fuel), Lytagra UAB (spare parts).

## *29. Fixed assets and other main property*

The main fixed assets and other equipment of the Group is situated in the agricultural entities. As at 31 December 2006, the total value of real estate of the Group ammounted to LTL 20 million. All main production facilities are of good condition.

## *30. Risk factors related to the activity of the Issuer*

**Credit risk** – at the moment the operations of the Issuer are profitable. The credit risk associated with the funds in bank is low, as the Group companies work only with the reliable banks. As at 31 December 2006 the liabilities and assets ratio was 0,55. The net financial liabilities payable ar the same date ammounted to LTL 37.363 thousand. There are fixed assets of the Group pledged for the long term loans. The repayments are according to the schedule, no delays are encountered. More information on Issuers financial obligations are disclosed in the consolidated financial statements of the Group for the year ended 31 December 2006, which is added to this prospectus.

**Market risk** – the agricultural entities owned by the Issuer are engaged in dairy, meat production and plant-growing (grain, rapes, and sugarbeets) activities. Despite the fact that the agricultural entities are profitable, the investor accepts the risk that due to unfavourable conditions in the agricultural sector, the entities will encounter the losses and will impeded the companies financial position.

**Disease risk** – the Issuers activities are connected to the raw materials of animal and organic origin. The diseases of pig and cattle herds (example: foot-and-mouth disease) can negatively influence the production volumes and decrease the overall demand. Such changes could impede the Issuers financial situation.

**Climate risk** – as the main activities of the Issuer‘s group are connected directly (plant-growing) and indirectly (dairy and meat production) to climate, the investor accepts the risk that due to bad climate and low productivity the Issuer will suffer the losses, which will impede the Issuers financial statements.

**Political risk** – agricultural sector in EU is one of the most strongly monitored ones. Despite the fact, that the monitoring is oriented to ensuring the sufficient revenues to the producers of agricultural goods, the investor accepts the risk that political changes might influence the situation negatively.

**Operational risk** – this is the risk to suffer direct or indirect losses due to inappropriate or insufficient internal controls, systems or technologies, actions of the employees or third parties. The part of operational risk is legal risk – risk to suffer losses due to current and past rights of the Issuer arising from innapropriate handling of different contracts and agreements, and legal cases or acts of law.

**Technological risk** – the risk arising from physical and moral depreciation of various technical equipment. The risk of this kind affects the finances of the Group indirectly.

***31. Production halt or reduction, which makes or had made substantial influence on the results of the Issuer's activity during the last 2 financial (business) years***

The were no production halt or reductions in Group that would cause severe influence on the results of the Issuer.

***32. Patents, licenses, contracts***

The Group does not own any licenses or patents.

***33. Hearings in courts and arbitrage***

In the district court of Republic of Lithuania the lawsuit of the Issuer against one of daily newspapers concerning neglecting the facts inadequate to reality and compensation of damages.

In the district court of Republic of Lithuania the lawsuit of the Director and minority shareholder of the Issuer's subsidiary company „Spindulys" ŽŪB against the other shareholder of subsidiary company „Spindulys" ŽŪB concerning challenging the share purchase agreements and registration of shares.

In the district court of Republic of Lithuania the appeal of the shareholder of Issuer's subsidiary company „Spindulys" ŽŪB Mr. Antanas Baubonis regarding the registration of ŽŪB „Spindulys" shares is stopped.

In the vicinity court of Republic of Lithuania the lawsuits of the the shareholder of Issuer's subsidiary company „Spindulys" ŽŪB Mr. Antanas Baubonis regarding the challenging of extraordinary shareholders meetings of „Spindulys" ŽŪB are stopped.

***34. Employees***

As at 31 December 2006, there are 848 employees (2005: 630 employees) working in the Group.

***35. Investment policy***

Agrovaldymo grupė AB invests in:

- Agricultural entities

(1) acquisition of agricultural entities,
(2) acquisition of land for owned agricultural entities,
(3) modernisation of agricultural entities.

- Investments in agricultural land

- Project supervision

One of most important goals of Agrovaldymo grupė AB is the modernization of agricultural entities. During the 2006 following investments were made:

- During 2005 – 2006 m. there were indirect support projects for modernization of milk-producing facilities approved by the NMA (National Payment Agency) for following agricultural entities: Kėdainių rajono Mantviliškio ŽŪB, ŽŪB „Kairėnai“, ŽŪB „Vėriškės“, Anykščių rajono Nausodės ŽŪB, Jurbarko rajono ŽŪB „Jurbarkai“, Raseinių rajono Dumšiškių ŽŪB, and Molėtų rajono ŽŪB „Alanta“. According to these projects, each company will receive about LTL 260 thousand during three year period from the NMA. All required investments were made in 2006.
- During 2005 – 2006 m. there were indirect support projects for modernization of nitrate facilities approved by the NMA (National Payment Agency) for following agricultural entities: Želsvelės ŽŪB and Skėmių ŽŪB. According to these projects, each company will receive about LTL 260 thousand during three year period from the NMA. All required investments were made in 2006.
- In order to increase the volume and productivity of animal – breeding activities in Želsvelės ŽŪB, there was a SAPARD project submitted to the NMA in 2004. In late autumn 2005, the agreement with NMA was signed and the project was implemented in 2006. In total, LTL 2.5 million was invested in reconstruction of farm, milking equipment, various agricultural equipment used for feed preparation and the production of the entity was increased dramatically.
- In 2005, there were 7 subsidiaries submitted SAPARD projects to the NMA. During 2006 4 of these projects were approved: modernization of milk – producing facilities in Panevėžio rajono Smilgių ŽŪB, renewal of feed preparation equipment and machinery in Anykščių rajono Nausodės ŽŪB, and plant – growing machinery in ŽŪB „Spindulys“, and Kėdainių rajono Mantviliškio ŽŪB. Total value of these projects amount to LTL 8.7 million. These projects will be carried out in 2007.
- During 2007, renewal of the old plant – growing machinery and equipment is planned. Estimated cost of investment will amount to around to LTL 3 million and will help increase the efficiency and productivity of agricultural activities, and decrease the service costs of machinery.

In 2006, in order to meet the short – term goals, renewal of the old plant – growing machinery and equipment was made. The total amount of investments made amounted to LTL 4 million. In 2006, the following modernizations of milk-producing facilities were carried out:

| | Agricultural entity | Value of project, LTL |
|---|---|---|
| 1. | ŽŪB "Vėriškės" | 1.317.513 |
| 2. | ŽŪB "Kairėnai" | 953.147 |
| 3. | Nausodės ŽŪB | 455.089 |
| 4. | ŽŪB "Alanta" | 413.450 |
| 5. | Dumšiškių ŽŪB | 351.865 |
| 6. | Mantviliškio ŽŪB | 305.148 |
| 7. | Skėmių ŽŪB | 246.637 |

In 2007, the following investment projects will be carried out:

| | Agricultural entity | Value of project, LTL | Estimated completion | Completion percent (2006/12/31) |
|---|---|---|---|---|
| 1. | Smilgių ŽŪB | 3.068.399 | September 2007 | 30% |
| 2. | ŽŪB "Jurbarkai" | 1.392.041 | September 2007 | 15% |
| 3. | Nausodės ŽŪB | 1.782.780 | September 2007 | 10% |
| 4. | ŽŪB "Spindulys" | 2.487.759 | September 2007 | 10% |
| 5. | Mantviliškio ŽŪB | 1.489.976 | September 2007 | 10% |

1. Panevėžio rajono Smilgių ŽŪB

On 28 August 2006, Smilgių ŽŪB signed an agreement with National payment agency regarding the financing of project „Pieno ūkio modernizavimas ir plėtra“, according to which 2 farms will be reconstructed, and two muck storages will be build. The realisation of the project will enable to increase milking cow herd up to 600 heards.

2. Jurbarko rajono ŽŪB „Jurbarkai“

In order to increase the volume and productivity of animal – breeding activities in Jurbarko rajono ŽŪB „Jurbarkai“, there was an indirect support project for modernization of milk-producing facilities submitted to the National Payment Agency for acquisition of milking equipment. Additionally, in 2006 – 2007, there are plans to reconstruct a 300 head farm and milking facilities.

3. – 5. Anykščių rajono Nausodės ŽŪB, ŽŪB „Spindulys“ ir Kėdainių rajono Mantviliškio ŽŪB have received the confirmation from National Payment Agency regarding the support for implementation of their projects. According to these projects, agricultural equipment will be purchased in 2007.

During the 2006, Agrovaldymo grupė AB increased the holdings in the subsidiary agricultural entities and acquired 4 new subsidiaries:

- Skėmių ŽŪB, Skėmių village, Radviliškis district,
- Molėtų rajono ŽŪB „Alanta“, Alanta village., Molėtų district,
- Jurbarko rajono ŽŪB „Jurbarkai“, Jurbarkai village., Jurbarko district,
- Ūkio žinios UAB, Vilnius.

In January 2006, a meat reproduction unit was separated from Želsvelės ŽŪB and a separate company – Želsvelės mėsos cechas was founded. This new company focuses on reproduction of meat and realization of products.

During 2007, the Group acquired controlling interest in the following Companies:

- - 100 per cent of Žemės vystymo fondas UAB shares
- - 100 per cent of Žemės vystymo fondas 11 UAB shares
- - 100 per cent of Žemės vystymo fondas 12 UAB shares
- - 100 per cent of Žemės vystymo fondas 14 UAB shares
- - 100 per cent of Žemės vystymo fondas 15 UAB shares
- - 100 per cent of Žemės vystymo fondas 16 UAB shares
- - 100 per cent of Žemės vystymo fondas 17 UAB shares
- - 100 per cent of Žemės vystymo fondas 18 UAB shares
- - 100 per cent of Žemės vystymo grupė 1 UAB shares
- - 100 per cent of Žemės vystymo grupė 2 UAB shares
- - 100 per cent of Žemės vystymo grupė 3 UAB shares
- - 100 per cent of Žemės vystymo grupė 4 UAB shares
- - 100 per cent of Žemės vystymo grupė 5 UAB shares
- - 100 per cent of Žemės vystymo grupė 6 UAB shares
- - 100 per cent of Žemės vystymo grupė 7 UAB shares
- - 50 per cent of Ūkio žinios UAB shares

### *36. Competitors*

The main competitors of the Group are the Lithuanian farmers and entities engaged in production of agricultural goods.

### *37. Dividends paid*

Over the last 2 years the Issuer did not pay any dividend.

## V. FINANCIAL SITUATION

### *38. Financial statements, prepared in accordance with International Financial Reporting Standarts (IFRS)*

All figures in Groups financial statements and explanatory notes are in LTL thousand, unless otherwise stated.

### *Consolidated income statement*

| | | Year ended 31 December | |
|---|---|---|---|
| | **Notes** | **2006** | **2005** |
| Sales | 4 | 28 002 | 23 025 |
| Cost of sales | 4 | (18 490) | (17 519) |
| **Gross profit** | | 9 512 | 5 506 |
| Operating expenses | 5 | (6 389) | (5 320) |
| **Operating profit** | | 3 123 | 186 |
| **Net other operations** | 6 | 68 | 1 313 |
| Other operating income | | 3 186 | 1 698 |
| Other operating expenses | | (3 118) | (385) |
| **Net financial activities** | 7 | 1 670 | 3 779 |
| Financial income | | 4 349 | 5 540 |
| Financial expenses | | (2 679) | (1 761) |
| **Profit before tax** | | 4 861 | 5 278 |
| Profit tax | | - | (5) |
| **Group profit bedore minority interest** | | **4 861** | **5 273** |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the Company | | 4 779 | 5 335 |
| Minority interest | 16 | 82 | (62) |
| | | 4 861 | 5 273 |
| | | | |
| **Earnings per share (LTL per share)** | 8 | **23,90** | **7 621,43** |

### *Consolidated balance sheet*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| | | As at 31 December | |
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 44 615 | 17 070 |
| Intangible assets | 10 | 575 | 568 |
| Accounts receivable | 11 | 1 492 | 312 |
| Investments held for sale | | 67 | 65 |
| | | 46 749 | 18 015 |
| **Biological assets** | | | |
| Fruit trees | | - | - |
| Livestock | | 17 977 | 11 277 |
| Plants | | 3 978 | 1 795 |
| | | 21 955 | 13 072 |
| **Current assets** | | | |
| Inventory | 12 | 9 733 | 7 930 |
| Receivables, prepayments and deferred charges | 13 | 12 139 | 10 897 |
| Current assets for sales | | - | 400 |
| Term deposits | 14 | 123 | 7 100 |
| Cash and cash equivalents | 14 | 1 576 | 3 129 |
| | | 23 571 | 29 456 |
| Total assets | | 92 275 | 60 543 |
| EQUITY | | | |
| **Attributable to the equity holders of the Company** | | | |
| Share capital | 15 | 200 | 70 |
| Revaluation reserve | | 15 857 | - |
| Legal reserve | | 125 | 8 |
| Other reserves | | 9 329 | 1 867 |
| Retained earnings | | 9 867 | 12 747 |
| | | 35 378 | 14 692 |
| **Minority interest** | 16 | 6 287 | 4 083 |
| **Total equity** | | 41 665 | 18 775 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 17 | 18 935 | 11 206 |
| Deferred capital grants | 18 | 4 674 | 2 548 |
| | | 23 609 | 13 754 |
| **Current liabilities** | | | |
| Borrowings | 17 | 18 428 | 19 837 |
| Trade and other payables | 19 | 8 573 | 8 177 |
| | | 27 001 | 28 014 |
| **Total liabilities** | | 50 610 | 41 768 |

| | | |
|---|---|---|
| **Total equity and liabilities** | 92 275 | 60 543 |

## *Consolidated statement on changes in equity*

| | Share capital | Revaluation reserve | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2005** | 70 | - | 1 | 26 | 9 824 | 9 921 |
| Correction of mistakes | - | - | - | - | (564) | (564) |
| **Recalculated balance at 1 January 2005** | **70** | **-** | **1** | **26** | **9 260** | **9 357** |
| Transfers to reserves | - | - | 7 | 1 841 | (1 848) | - |
| Net result for the period | - | - | - | - | 5 335 | 5 335 |
| **Balance at 31 December 2005 / Balance at 1 January 2006** | **70** | **-** | **8** | **1 867** | **12 747** | **14 692** |
| Payment of share capital | 50 | - | - | - | - | 50 |
| Increase in share capital | 80 | - | - | (80) | - | - |
| Revaluation of property | - | 15 857 | - | - | - | 15 857 |
| Transfers to reserves | - | - | 117 | 7 542 | (7 659) | - |
| Net result for the period | - | - | - | - | 4 779 | 4 779 |
| **Balance at 31 December 2006** | **200** | **15 857** | **125** | **9 329** | **9 867** | **35 378** |

## *Consolidated cash flow statement*

| | Notes | For the year ended 31 December 2006 | 2005 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash flows from operating activities | 20 | (151) | (661) |
| Interest paid | 7 | (2 357) | (1 569) |
| Profit tax paid | | - | - |
| Net cash flows from operating activities | | (2 508) | (2 230) |
| *Investing activities* | | | |
| Acquisitions of subsidiaries (net of cash acquired) | | (5 141) | (5 113) |
| Purchases of property, plant and equipment | 9 | (10 793) | (2 962) |
| Purchases of intangible assets | 10 | (81) | (32) |
| Loans provided | | (1 180) | (312) |
| Proceeds (purchases) of assets held for sale | | 400 | (35) |
| Proceeds from disposal of property, plant and equipment | | 412 | 37 |
| Capital grants received | | 2 595 | 656 |
| Interest received | 7 | 178 | 28 |
| Net cash flows from investing activities | | (13 610) | (7 733) |
| **Financing activities** | | | |
| Dividends paid | | - | - |
| Payments for shares issued | | 50 | - |
| Purchases (sales) of investments held for sale | | 2 | (6) |
| Net proceeds (repayments) of borrowings | | 1 268 | 7 201 |
| Net proceeds (repayments) of other financial liabilities | | 1 903 | 10 665 |
| Net increase (decrease) of financial leasing liabilities | | 3 148 | 48 |
| Net cash flows from financing activities | | 6 371 | 17 908 |
| **Increase (decrease) in cash and cash equivalents** | | (9 747) | 7 945 |
| Cash and cash equivalents balance at the beginning of the year | | 11 446 | 2 284 |
| **Cash and cash equivalents balance at the end of the year** | 14 | 1 699 | 10 229 |

## *39. Comments to the financial statements*

### 39.1 Notes to the financial statements

**1. General information**

Agrovaldymo grupė AB (hereinafter the Company) is a public company, located in the capital of Republic of Lithuania Vilnius. The Company was established on 25 June 2003. The main operations of the Company include management of subsidiaries.

The shareholders‘ structure of the Company as at 31 December 2006 is as follows:

| | Number of shares | % |
|---|---|---|
| ŽIA valda UAB | 53 740 | 26,87 |
| Invalda AB | 42 920 | 21,46 |
| Kelmės pieninė AB | 1 720 | 0,86 |
| Mantas Juozaitis | 18 940 | 9,47 |
| Mindaugas Juozaitis | 18 140 | 9,07 |
| Titas Sereika | 14 800 | 7,40 |
| Linas Strėlis | 12 700 | 6,35 |
| Aušrys Labinas | 12 400 | 6,20 |
| Rusnė Sereikienė | 12 360 | 6,18 |
| Renatas Dūdonis | 4 700 | 2,35 |
| Aldona Petrošienė | 3 120 | 1,56 |
| David Henry Lasky | 3 000 | 1,50 |
| Remigijus Žvirblis | 1 460 | 0,73 |
| | 200 000 | 100,00 |

The consolidated Group (hereinafter the Group) consists of the Company and seventeen subsidiaries (2005: thirteen subsidiaries). The subsidiaries included in the Group‘s consolidated financial statements are indicated below:

| Subsidiary | Country | Groups ownership interest as at 31 December, % 2006 | 2005 | Profile |
|---|---|---|---|---|
| AVG Investment UAB | Lithuania | 100,00 % | 100,00 % | The subsidiary specializes in acquisitions of agricultural companies |
| Skėmiai agricultural company | Lithuania | 99,87 % | - | The subsidiary operates as primary agricultural production and sales unit |
| Panevėžys district Smilgiai agricultural company | Lithuania | 99,58 % | 99,58 % | The subsidiary operates as primary agricultural production and sales unit |
| Molėtai district agricultural company “Alanta” | Lithuania | 98,86 % | - | The subsidiary operates as primary agricultural production and sales unit |
| Raseiniai district Dumšiškės agricultural company | Lithuania | 98,02 % | 95,81 % | The subsidiary operates as primary agricultural production and sales unit |
| Anykščiai district Nausodės agricultural company | Lithuania | 94,63 % | 94,63 % | The subsidiary operates as primary agricultural production and sales unit |
| Žadžiūnai agricultural company | Lithuania | 92,66 % | 92,66 % | The subsidiary operates as primary agricultural production and sales unit |

**1. General information (continued)**

| Subsidiary | Country | Groups ownership interest as at 31 December, % 2006 | 2005 | Profile |
|---|---|---|---|---|
| Želsvelė agricultural company | Lithuania | 89,54 % | 89,54 % | The subsidiary operates as primary agricultural production and sales unit |
| Želsvelės meat processing UAB | Lithuania | 89,54 % | 89,54 % | The subsidiary operates as an independent meat processing unit. |
| Kėdainiai district Mantviliškis agricultural company | Lithuania | 91,91 % | 91,79 % | The subsidiary operates as primary agricultural production and sales unit |
| Agricultural cooperative „AVG Lankesa“ | Lithuania | 90,21 % | 87,17 % | The subsidiary operates as primary agricultural production and sales unit |
| Eimučiai agricultural company | Lithuania | 85,89 % | 85,89 % | The subsidiary operates as primary agricultural production and sales unit |
| Jurbarkai district agricultural company "Jurbarkai" | Lithuania | 83,98 % | - | The subsidiary operates as primary agricultural production and sales unit |
| Agricultural company „Vėriškės“ | Lithuania | 81,22 % | 81,22 % | The subsidiary operates as primary agricultural production and sales unit |
| Agricultural company „Kairėnai“ | Lithuania | 75,72 % | 75,11 % | The subsidiary operates as primary agricultural production and sales unit |
| Ūkio žinios UAB | Lithuania | 50,00 % | - | Issues of newspaper |
| Agricultural company „Spindulys“ | Lithuania | 48,43 % | 48,43 % | The subsidiary operates as primary agricultural production and sales unit |

The Company exercises control over the operations of Agricultural company „Spindulys“, therefore this company is treated as subsidiary of the Company in preparation of these consolidated financial statements.

There were 848 employees in the Group as at 31 December 2006 (2005: 630 employees).

**Groups‘ financial rations:**

| | | **2006** | **2005** |
|---|---|---|---|
| EBITDA | Earnings before interest, tax, depreciation and amortisation (LTL ,000) | 10.427 | 8.606 |
| ROA | Return on assets | 9,34% | 15,67% |
| ROE | Return on equity | 15,81% | 32,65% |
| ROIC | Return on invested capital | 10,49% | 17,78% |
| Liquidity ratio | | 0,47 | 0,71 |
| Acid test ratio | | 0,27 | 0,52 |

EBITDA = Earnings before interest, tax, depreciation and amortisation
ROA = Earnings before interest, tax / (Average total assets)
ROE = Net profit / (Average owners equity)
ROIC = Earnings before interest, tax / (Average total assets – Average non-interest bearing liabilities)
Liquidity ratio = Current assets / Current liabilities
Acid test ratio = (Current assets – Inventory) / Current liabilities

## 2. Accounting principles

The principal accounting policies adopted in preparation of these consolidated financial statements are set out below:

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. These financial statements were prepared based on historical cost convention.

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

*Subsidiary undertakings*

Subsidiary undertakings, which are those companies in which the Group or Control Group, directly or indirectly, has an interest of more than one half voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group or Control Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognized as negative goodwill. See Note "Intangible assets" for the accounting policy on goodwill.

All inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the case of subsidiaries not 100% owned, the Group recognizes a minority interest consisting of the portion of net income and net assets attributable to the interest owned by third parties.

### 2.2 Foreign currency translation

*(a) Measurement currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (hereinafter the measurement currency). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the measurement currency of the Company.

Until 1 February 2002, the exchange rate of the Litas was fixed to the US Dollar (USD) at a rate of 4 LTL=1 USD. As from 2 February 2002 Lithuania repegged the Litas to the Euro at rate of 3.4528 LTL=1 Euro.

*(b) Transactions and balances*

Foreign currency transactions are translated into the measurement 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 of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

## 2.3 Property, plant and equipment

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

Depreciation is calculated on the straight-line method to write off the cost of assets to their residual values over their estimated useful life as follows:

| | |
|---|---|
| Buildings | 20-50 metų |
| Plant & machinery | 5-20 metai |
| Agricultural machines | 5-10 metai |
| Motor vehicles | 4-10 metai |
| Other tangible assets | 1-5 metai |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Borrowing costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

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

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready 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.

## 2.4 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 assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries occurring is included in intangible assets in the Group accounts. Goodwill is amortised using the straight-line method over its estimated useful life, which is 5 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

*(b) Negative goodwill*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill, which arises from acquisitions of subsidiaries, is recognized in the income statement immediately.

*(c) Other intangible assets*

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent amortisation. Amortization is calculated on the straight-line method to write off the cost of each asset over the period of 1 – 5 years.

### 2.5 Impairment of long-term assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

### 2.6 Biological assets

Biological assets possessed by the Group – fruit trees, livestock, and plants were recognised in the balance sheet at fair values as at 31 December 2006.

### 2.7 Inventory

Inventories are stated at the lower of cost or net realizable 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 labor, other direct costs and related production overheads, but excludes borrowing costs. The cost of raw materials and goods for resale comprises of their acquisition cost, including cost of transportation and loading. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### 2.8 Trade and other receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows. Bad debts are written off during the year in which they are identified as irrecoverable.

### 2.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash in bank, deposits held at call with banks, and used bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

### 2.10 Share capital

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

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 charge in shareholders‘equity.

### 2.11 Reserves

*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 purpose approved by annual general meeting of shareholders.

## 2.11 Reserves (continued)

*Legal reserve*

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.

## 2.12 Borrowings

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between proceeds (net of transaction costs) and the redemption value is either recognized in the income statement or capitalized to property, plant and equipment over the period of the borrowings using the effective yield method.

## 2.13 Income tax

Profit is taxable at a 15 per cent (2005: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

Expenses of income tax are calculated and accrued for in the consolidated financial statements on the basis of information available at the moment of the preparation of the consolidated financial statements, and estimates of income tax performed by the management in accordance with the provisions of tax legislation in the countries the Company operates.

## 2.14 Leases – where the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leasees are capitalized at the inception of the lease at the estimated present value of the underlying 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 current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

## 2.15 Grants and subsidies

Grants are recognized at fair value where there is sufficient evidence that the grant will be received and the Group will comply with all conditions attached.

Grants received to finance acquisition of property, plant and equipment are included in non-current deferred income in the balance sheet. For the purpose of the income statement, they are recognized as income on a straight-line basis over the useful life of property, plant and equipment concerned.

**2.16 Employee benefits**

*(a) Social security contributions*

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 employee benefits relating to employee service in the current and prior period. Social security contributions are recognized as expenses on an accrual basis and included in payroll expenses.

*(b) Termination benefits*

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

**2.17 Revenue recognition**

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, and discounts, and after eliminating the sales within the Group. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognized on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

**2.18 Dividends**

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Group’s shareholders.

**2.19 Earnings per share**

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

**2.20 Segment reporting**

The Group‘s business segments – cattle-breeding and plant-growing agricultural production and sales. Detailed information on main segments of the Group is disclosed in the explanatory notes to the consolidated financial statements.

**2.21 Comparatives**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

## 3. Financial risk management

*Financial risk factors*

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 Group‘s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Foreign exchange risk
Foreign exchange risk is minimal, as most of the sales and purchases are made in local currency.

Credit risk
The Group has no significant concentration of credit risk. Credit risks or the risks of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

Liquidity risk
Prudent liquidity risk management allows to maintain sufficient cash and availability of funding under committed credit facilities.

Interest rate risk
The Group‘s income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group‘s policy is to maintain a diversified debt portfolio. Split between fixed and floating interest rate depends on the actual situation in the market.

Fair value estimation
The face values less any estimated credit adjustments for financial assets and liabilities are assumed to approximate their fair values.

## 4. Segment reporting

*Primary reporting format – business segments*

Groups‘ business segments – cattle-breeding and plant-growing, which can be further divided by the different production and services.

| | 2006 | 2005 |
|---|---|---|
| Sales by products and services: | | |
| **Cattle-breeding:** | | |
| Milk | 14 069 | 7 797 |
| Meat processing production | 2 341 | 2 771 |
| Cattle meat sales | 2 899 | 1 724 |
| Pork sales | 1 135 | 844 |
| Total cattle-breeding revenues: | 20 444 | 13 136 |
| **Plant-growing:** | | |
| Grain | 3 885 | 5 407 |
| Sugar beets | 1 433 | 1 854 |
| Rapeseed | 1 087 | 1 282 |
| Other income | 1 153 | 1 346 |
| Total plant-growing sales: | 7 558 | 9 889 |
| Total sales: | **28 002** | **23 025** |

| | 2005 | 2005 |
|---|---|---|
| Cost of sales by products and services: | | |
| **Cattle-breeding:** | | |
| Milk | (10 155) | (5 458) |
| Meat processing production | (2 099) | (2 955) |
| Cattle meat sales | (4 491) | (3 091) |
| Pork sales | (1 431) | (1 109) |
| Subsidies for cattle-breeding activities | 3 560 | 806 |
| Total cattle-breeding cost of sales: | (14 616) | (11 807) |
| **Plant-growing:** | | |
| Grain | (3 359) | (5 674) |
| Sugar beets | (1 425) | (1 158) |
| Rapeseed | (2 201) | (1 122) |
| Other cost of sales | (1 571) | (1 353) |
| Subsidies for plant-growing activities | 4 682 | 3 595 |
| Total plant-growing cost of sales: | (3 874) | (5 712) |
| Total cost of sales: | **(18 490)** | **(17 519)** |

4. **Segment reporting (continued)**

According to the European Commission directive „Regarding European agriculture direction and guarantee fund support to rural regions“, as of 1 June 2004, Group companies are entitled to subsidies for agricultural land used in operations. Plantation declaration must be submitted by 1 June, and subsidies for the year are paid until 30 April of next year. These subsidies reduce the cost of sales of plant-growing operations.

According to the Republic of Lithuanian Ministry of Agriculture „Rules on additional national subsidies payments for livestock for 2005“, Group companies are entitled to subsidies for livestock sold for realization. These subsidies reduce the cost of sales of cattle-breeding activities.

According to the Republic of Lithuania Ministry of Agriculture „Rules on subsidies payments to milk producers“, Group companies are entitled to subsidies for the amount of milk sold during the year. These subsidies reduce the cost of sales of cattle-breeding activities.

5. **Operating expenses**

| | **2006** | **2005** |
|---|---|---|
| Salaries and social security expenses | (2 853) | (2 220) |
| Transportation expenses | (647) | (577) |
| Legal expenses | (600) | (535) |
| Property administration expenses | (281) | (76) |
| Consultations, preparations of business plans | (277) | (389) |
| Communication expenses | (218) | (155) |
| Write-offs of inventory, low value inventory | (189) | (541) |
| Electricity expenses | (148) | (98) |
| Insurance expenses | (128) | (45) |
| Depreciation and amortization | (121) | (73) |
| Marketing expenses | (62) | (107) |
| Repair expenses | (45) | (69) |
| Other operating expenses | (820) | (435) |
| Total operating expenses: | (6 389) | (5 320) |

6. **Other operations**

| | **2006** | **2005** |
|---|---|---|
| Other operating income: | | |
| - Livestock revaluations | 2 446 | 1 685 |
| - Amounts payable written-off | 468 | - |
| - Other income | 272 | 13 |
| **Total other operating income:** | 3 186 | 1 698 |
| **Other operating expenses:** | | |
| - Plant-growing production revaluation | (1 658) | - |
| - Cattle-breeding expenses, not included in cost of sales | (488) | (205) |
| - Plant-growing expenses, not included in cost of sales | (541) | (56) |
| **- Other expenses** | (431) | (124) |
| **Total other operating expenses:** | (3 118) | (385) |

| | | |
|---|---|---|
| Net other operations | 68 | 1 313 |

## 7. Financial activities

| | 2006 | 2005 |
|---|---|---|
| Financial income: | | |
| - write-off of negative goodwill | 3 862 | 4 528 |
| - dividends received | 236 | 383 |
| - interest income | 178 | 28 |
| - revaluation of assets held for sale | - | 368 |
| - previously unaccounted subsidies | - | 69 |
| - other financial income | 73 | 164 |
| Total financial income: | 4 349 | 5 540 |
| Financial expenses: | | |
| - interest expenses | (2 357) | (1 569) |
| - other financial expenses | (322) | (192) |
| Total financial expenses: | (2 679) | (1 761) |
| **Net financial activities** | 1 670 | 3 779 |

## 8. Earnings per share

| | 2006 | 2005 |
|---|---|---|
| Net profit attributable to equity holders of the Company | 4 779 | 5 335 |
| Weighted average number of ordinary shares in issues (units) | 200 000 | 700 |
| Basic earnings per share (LTL per share) | 23,90 | 7 621,43 |

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

The Company increased it's share capital up to LTL 200 000 (two hundred thousand litas) and decreased the nominal value of one ordinary share from LTL 100 (one hundred litas) to LTL 1 (one litas)

## 9. Property, plant and equipment

| | Land and buildings | Machinery and equipment | Motor vehicles and other tangible assets | Construction in progress | Total |
|---|---|---|---|---|---|
| **At 1 January 2005** | | | | | |
| Acquisition cost | 4 821 | 11 261 | 2 713 | - | 18 795 |
| Accumulated depreciation | (1 347) | (5 614) | (1 631) | - | (8 592) |
| Net book amount | 3 474 | 5 647 | 1 082 | - | 10 203 |
| **Year ended 31 December 2005** | | | | | |
| Opening net book amount | 3 474 | 5 647 | 1 082 | - | 10 203 |
| Additions | 655 | 841 | 214 | 1 252 | 2 962 |
| Acquisitions of subsidiaries | 876 | 3 964 | 628 | 213 | 5 681 |
| Disposals | (26) | (10) | - | - | (36) |
| Write-offs | (1) | (9) | (48) | - | (58) |
| Reclassifications | - | 315 | (375) | 60 | - |
| Depreciation | (139) | (1 283) | (260) | - | (1 682) |
| Net book amount | 4 839 | 9 465 | 1 241 | 1 525 | 17 070 |
| **At 1 January 2006** | | | | | |
| Acquisition cost | 6 898 | 18 827 | 3 365 | 1 525 | 30 615 |
| Accumulated depreciation | (2 059) | (9 362) | (2 124) | - | (13 545) |
| Net book amount | 4 839 | 9 465 | 1 241 | 1 525 | 17 070 |
| **Year ended 31 December 2006** | | | | | |
| Opening net book amount | 4 839 | 9 465 | 1 241 | 1 525 | 17 070 |
| Additions | 263 | 6 905 | 702 | 2 923 | 10 793 |
| Acquisitions of subsidiaries | 586 | 1 374 | 695 | 154 | 2 809 |
| Disposals | (39) | (357) | (15) | - | (411) |
| Write-offs | (3) | (211) | (51) | - | (265) |
| Reclassifications | 1 323 | - | - | (1 323) | - |
| Revaluation | 13 368 | 3 602 | 771 | - | 17 741 |
| Depreciation | (348) | (2 148) | (626) | - | (3 122) |
| Net book amount | 19 989 | 18 360 | 2 717 | 3 279 | 44 615 |
| **At 31 December 2006** | | | | | |
| Acquisition cost | 23 271 | 31 689 | 5 827 | 3 279 | 64 066 |
| Accumulated depreciation | (3 282) | (13 059) | (3 110) | - | (19 451) |
| Net book amount | 19 989 | 18 360 | 2 717 | 3 279 | 44 615 |

As at 31 December 2006, certain property, plant and equipment with a carrying value of LTL 0 thousand (31 December 2005: LTL 12 233 thousand) have been pledged as security for bank borrowings.

Depreciation expenses of property, plant and equipments are included in selling and marketing expenses, general and administrative expenses and cost of sales in the income statements, and in work in progress and finished goods in the balance sheet.

## 10. Intangible assets

| | Goodwill | Software and other intangible assets | Total |
|---|---|---|---|
| **At 1 January 2005** | | | |
| Acquisition cost | 662 | 11 | 673 |
| Accumulated amortization | - | (1) | (1) |
| Net book amount | 662 | 10 | 672 |
| | | | |
| **Year ended 31 December 2005** | | | |
| Opening net book amount | 662 | 10 | 672 |
| Acquisitions of subsidiaries | 10 | 2 | 12 |
| Reclassifications | - | 32 | 32 |
| Write-offs | - | - | - |
| Amortization | (133) | (15) | (148) |
| Net book amount | 539 | 29 | 568 |
| | | | |
| **At 31 December 2005** | | | |
| Acquisition cost | 672 | 45 | 717 |
| Accumulated amortization | (133) | (16) | (149) |
| Net book amount | 539 | 29 | 568 |
| | | | |
| **Year ended 31 December 2006** | | | |
| Opening net book amount | 539 | 29 | 568 |
| Acquisitions of subsidiaries | 95 | - | 95 |
| Acquisitions | - | 81 | 81 |
| Write-offs | - | - | - |
| Amortization | (150) | (19) | (169) |
| Net book amount | 484 | 91 | 575 |
| | | | |
| **At 31 December 2006** | | | |
| Acquisition cost | 767 | 126 | 893 |
| Accumulated amortization | (283) | (35) | (318) |
| Net book amount | 484 | 91 | 575 |

Amortization expenses of software and other intangible assets are included in general and administrative expenses in the income statement.

## 11. Long-term receivables

| | 2006 | 2005 |
|---|---|---|
| **Long-term loans** | 1 492 | 312 |
| | 1 492 | 312 |

The Company has granted a LTL 792 thousand (2005: LTL 312 thousand) loan to Žemės vystymo grupė 1 UAB, with a 10,5 per cent annual interest rate. The loan matures in 2017.

The Company has granted a LTL 100 thousand (2005: LTL 0 thousand) loan to Žemės vystymo fondas 12 UAB, with a 10,5 per cent annual interest rate. The loan matures in 2015.

The Company has granted a LTL 600 thousand (2005: LTL 0 thousand) loan to Aušrys Labinas, with a 8,925 per cent annual interest rate. The loan matures in 2008.

In the opinion of the Company's management, the carrying amounts of long-term receivables approximate their fair values.

## 12. Inventory

| | 2006 | 2005 |
|---|---|---|
| Raw materials | 1 407 | 3 040 |
| Work in progress | 1 400 | 1 153 |
| Finished goods | 6 926 | 3 737 |
| | 9 733 | 7 930 |

As at 31 December 2006, finished goods were disclosed at fair values.

## 13. Receivables, prepayments and deferred charges

| | 2006 | 2005 |
|---|---|---|
| Trade receivables | 3 514 | 2 321 |
| Prepayments and deferred charges | 3 592 | 2 574 |
| Receivable subsidies from National Payment Agency | 4 891 | 2 552 |
| Receivable Bank loans | - | 1 400 |
| Other amounts receivable | 142 | 2 050 |
| | 12 139 | 10 897 |

In the opinion of the Company's management, the carrying amounts of receivables, prepayments and deferred charges approximate their fair values.

## 14. Cash and cash equivalents

| | 2006 | 2005 |
|---|---|---|
| Term deposits | 123 | 7 100 |
| Cash at bank and in hand | 1 576 | 3 129 |
| | 1 699 | 10 229 |

Cash in certain bank accounts of the Group have been pledged as security for borrowings.

## 15. Share capital

As at 31 December 2006, the share capital was comprised of 200 000 ordinary registered shares (2005: 700 shares) with par value LTL 1 each (2005: LTL 1). All the shares are fully paid.

On 26 January 2006, the Company increased the share capital by LTL 80 000, by issuing 800 new shares with a par value of LTL 100 each from the Companies retained earnings and dividing them equally to the existing shareholders.

On 20 March 2006, the par value of the Companies share was decreased from LTL 100 to LTL 1. The total number of issued shares changed from 1 500 to 150 000 shares.

On 10 April 2006, the share capital of the Company was increased by LTL 50 000 (fifty thousand litas) by issuing new 50 000 ordinary shares with par value of LTL 1 each.

## 16. Minority interest

| | 2006 | 2005 |
|---|---|---|
| At start of the year | 4 083 | 3 987 |
| Disposals of shares in subsidiary undertakings | 4 | 37 |
| Purchases of shares in subsidiary undertakings from minorities | (235) | (756) |
| Acquisitions | 468 | 877 |
| Share of net result of subsidiary undertakings – net | 83 | (62) |
| Revaluation of assets, net result | 1 884 | |
| At end of the year | 6 287 | 4 083 |

## 17. Borrowings

| | 2006 | 2005 |
|---|---|---|
| **Current liabilities** | | |
| Short-term bank loans | - | 7 494 |
| Current year portion of finance lease liabilities | 996 | 144 |
| Current year portion of long-term bank loans | - | 2 399 |
| Loans from shareholders and associated entities (Note 21) | 5 253 | 9 575 |
| Other current borrowings | 12 180 | 225 |
| | 18 429 | 19 837 |
| **Non-current liabilities** | | |
| Long-term bank loans | 13 871 | 9 810 |
| Finance lease liabilities | 2 363 | 66 |
| | 2 700 | - |
| Other loans and financial liabilities | - | 1 330 |
| | 18 934 | 11 206 |
| **Total borrowings** | 37 363 | 31 043 |

The bank borrowings are secured over certain of the property, plant and equipment (Note 9). Lease liabilities are effectively secured as the rights to leased asset revert to the lessor in the event of default.

## 17. Borrowings (continued)

Weighted average interest rates effective as at 31 December (in per cent) were as follows:

| | 2006 | 2005 |
|---|---|---|
| Long-term bank loans | 5,70 | 4,66 |
| Short-term bank loans | - | 6,44 |
| Finance lease liabilities | 5,53 | 4,76 |
| Other loans and financial liabilities | 8,39 | 11,94 |

Maturity of non-current borrowings (excluding finance lease liabilities):

| | 2006 | 2005 |
|---|---|---|
| – not later than 1 year | 979 | 3 553 |
| – later than 1 year and not later than 5 years | 4 896 | 5 452 |
| – later than 5 years | 10 696 | 2 135 |
| | 13 871 | 2 926 |

Loans that mature in one year time, are short-term and are reviewed at different dates in 2007.

Finance lease liabilities:

| | 2006 | 2005 |
|---|---|---|
| – not later than 1 year | 996 | 144 |
| – later than 1 year and not later than 5 years | 716 | 34 |
| – later than 5 years | 1 648 | 32 |
| | 3 360 | 210 |

## 18. Deferred capital grants

| | 2006 | 2005 |
|---|---|---|
| At start of the year | 2 548 | 1456 |
| Acquisitions of subsidiaries | - | 480 |
| Deferred capital grants received | 2 595 | 769 |
| Credited to income statement | (469) | (157) |
| At end of the year | 4 674 | 2 548 |

Deferred capital grants are related to acquisition of property, plant and equipment and are donated by the European Union funds and Lithuanian Government under the SAPARD programme. The Company has no obligation to repay or otherwise refund the capital grants received unless it breaches the contractual provisions contained in the agreements concluded with the grantors.

## 19. Trade and other payables

| | 2006 | 2005 |
|---|---|---|
| Trade payables | 5 771 | 5 599 |
| Salaries, social security and other taxes payable | 1 219 | 946 |
| Other accounts payable | 1 434 | 604 |
| Prepayments received | 149 | 1 028 |
| | 8 573 | 8 177 |

## 20. Cash flows from operating activity

Reconciliation of profit before tax and minority interest to cash generated from operations:

| | 2006 | 2005 |
|---|---|---|
| Net profit before tax and minority interest | 4 779 | 5 335 |
| Adjustments: | | |
| – depreciation (Note 9) | 3 122 | 1 682 |
| – amortization (Note 10) | 169 | 148 |
| – write-offs of tangible and intangible assets (Notes 9 and 10) | 265 | 58 |
| – interest expenses (Note 7) | 2 357 | 1 569 |
| – interest received (Note 7) | (178) | (28) |
| – write-offs of negative goodwill (Note 7) | (3 862) | (4 528) |
| – minority interest | 83 | (62) |
| – loss of control | (4) | (114) |
| – write-offs of inventory | 189 | 541 |
| – write-offs of accounts payable | (468) | - |
| – accrued vacation reserve | 107 | 432 |
| – revaluation of biological assets | (788) | (2 050) |
| – amortization of deferred capital grants (Note 18) | (469) | (44) |
| Changes in working capital: | | |
| – biological assets | (3 278) | (473) |
| – accounts receivable, prepayments and deferred expenses | (153) | (3 795) |
| – inventory | (2 041) | (1 884) |
| – amounts payable | 19 | 2 552 |
| Cash flows from operating activities | (151) | (661) |

*Non-monetary transactions*

The principal non-cash transactions are the revaluations of biological assets and finished goods to fair values, and write-offs of negative goodwill recognized in the income statement.

## 21. Related party transactions

*(i) Loans to Senior Management, members of the Board, and other related parties*

As at 31 December 2006, the advances to shareholders of the Company amounted to LTL 1 551 thousand (2005: LTL 1 409 thousand). Shareholder and member of the Board Titas Sereika had taken advance for the amount of LTL 1 009 thousand (2005: LTL 1 009 thousand), while shareholder and member of the Board Aušrys Labinas had a balance of LTL 262 thousand (2005: LTL 401 thousand). Chairman of the Board Valentas Šulskis had taken a LTL 280 thousand advance (2005: nill).

*(ii) Payments to the members of the Board and Senior Management*

In 2006, salaries and other payments to the Senior Management of the Company amounted to LTL 158 thousand (2005: LTL 52 thousand).

*(iii) Other transactions with related parties*

All the shareholders of Agrovaldymo Grupė AB (Note 1), owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, are considered to be related parties.

In May 2005 Finansų spektras UAB sold it‘s share in Company to another Invalda AB Group company Pozityvios investicijos AB. On 31 December 2005, all Group‘s commitments to Finansų spektras UAB were transferred to Pozityvios investicijos AB.

On 30 June 2006, Pozityvios investicijos AB was merged into Invalda AB.

Trading transactions with related parties were carried out on commercial terms and conditions and market prices.

The following transactions were carried out with related parties:

| | 2006 | 2005 |
|---|---|---|
| *i) Purchases of goods and services* | | |
| ŽIA valda UAB | 218 | 97 |
| Kelmės pieno centras UAB | 75 | - |
| Mindaugas Juozaitis | 27 | - |
| Finasta įmonių finansai UAB | 17 | - |
| Mantas Juozaitis | 16 | - |
| Sanitex BĮ UAB | 4 | - |
| FMĮ Finasta AB | 1 | 10 |
| Monterin Invest Ltd. | - | 2 |
| | 358 | 109 |
| *ii) Interest accrued* | | |
| Sanitex BĮ UAB | 596 | 101 |
| Finansų spektras UAB | 295 | 830 |
| ŽIA valda UAB | 49 | 4 |
| Aušrys Labinas | 28 | - |
| Monterin Invest Ltd | - | 4 |
| | 968 | 939 |

## 21. Related party transactions (continued)

Balances as at 31 December arising from the transactions with related parties:

i) Assets

| | 2006 | 2005 |
|---|---|---|
| **Loans issued** | | |
| Aušrys Labinas | 600 | - |
| Total: | 600 | - |
| **Advances issued** | | |
| Titas Sereika | 1 009 | 1 009 |
| Aušrys Labinas | 262 | 401 |
| Valentas Šulskis | 280 | - |
| Total: | 1 551 | 1 409 |
| Total balances included in the Assets of the Group | **2 151** | **1 409** |

ii) Liabilities

| | 2006 | 2005 |
|---|---|---|
| **Other financial liabilities** | | |
| Sanitex BĮ UAB | 4 086 | 3 640 |
| Pozityvios investicijos AB | 1 053 | 5 827 |
| Aušrys Labinas | 1 003 | - |
| ŽIA valda UAB | 11 | 54 |
| Monterin Invest Ltd | - | 54 |
| | 6 153 | 9 575 |
| **Trade payables** | | |
| ŽIA valda UAB | 2 | 32 |
| FMĮ Finasta AB | - | 63 |
| Monterin Invest Ltd | - | 2 |
| | 2 | 97 |
| Total balances included in the liabilities of the Group | **6 155** | **9 672** |

### 22. Post balance sheet events

In January – March 2007, following subsidiaries were acquired:

- 100 per cent of Žemės vystymo fondas UAB shares
- 100 per cent of Žemės vystymo fondas 11 UAB shares
- 100 per cent of Žemės vystymo fondas 12 UAB shares
- 100 per cent of Žemės vystymo fondas 14 UAB shares
- 100 per cent of Žemės vystymo fondas 15 UAB shares
- 100 per cent of Žemės vystymo fondas 16 UAB shares
- 100 per cent of Žemės vystymo fondas 17 UAB shares
- 100 per cent of Žemės vystymo fondas 18 UAB shares
- 100 per cent of Žemės vystymo grupė 1 UAB shares
- 100 per cent of Žemės vystymo grupė 2 UAB shares
- 100 per cent of Žemės vystymo grupė 3 UAB shares
- 100 per cent of Žemės vystymo grupė 4 UAB shares
- 100 per cent of Žemės vystymo grupė 5 UAB shares
- 100 per cent of Žemės vystymo grupė 6 UAB shares
- 100 per cent of Žemės vystymo grupė 7 UAB shares
- 50 per cent of Ūkio žinios UAB shares

39.2 Consolidation principles and the names and adresses of the companies with which the consolidated accounts are conluded.

All subsidairy entities are disclosed in the section above – notes to the consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. These financial statements were prepared based on historical cost convention.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. These financial statements were prepared based on historical cost convention. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

39.3 Main changes and their causes from the last financial (business) year, or other important information.

All significant events that occurred since last reporting date were disclosed in the section above.

***40. The report prepared by the Issuer's management or other authorised body***

***ANNUAL REPORT***

**To the shareholders of Agrovaldymo grupė AB**

The main activities of the Company consist of investing into the agricultural companies in Lithuania and managing them effectively. In 2006, the agricultural companies group managed by the Company (hereinafter – the Group) was the largest and fastest growing agricultural production unit in Lithuania.

Despite of bad year for agricultural business, year 2006 was a profitable year for the Group. Since the establishment of the Company in 2003, the main activities were concentrated on expansion of the Group, but in 2005 – 2006 the emphasis was shifted to modernization of the agricultural companies, increase in efficiency of everyday operations, and volumes of production and realization of goods.

The financial year of the Group starts on the 1st of January and ends on 31st of December. In 2006, the revenues of the Group increased by almost 20 per cent up to LTL 28 002 thousand (2005: LTL 23 025 thousand). The main reason behind the rapid increase in Group revenues was the increase in number of Group companies. Net profit for the year decreased from LTL 5 335 thousand to LTL 4 779 thousand in 2005.

As at 31 December 2007, the share capital of Agrovaldymo grupė AB consisted of 200 000 ordinary shares with LTL 1 nominal value each. The shareholder structure changed during the year and as at 31 December 2006 was the following:

| Name, surname / Company name | Company code | Representative of shareholder (of legal entities only) | Votes held by the shareholder (number) | Shares held by the shareholder (per cent) |
|---|---|---|---|---|
| ŽIA valda UAB | 124211277 | Marius Žutautas | 53.740 | 26,87% |
| Invalda AB | 121304349 | Darius Šulnis | 42.920 | 21,46% |
| Kelmės pieninė AB | 162403450 | Svajūnas Sipavičius | 1.720 | 0,86% |
| Mantas Juozaitis | - | - | 18.940 | 9,47% |
| Mindaugas Juozaitis | - | - | 18.140 | 9,07% |
| Titas Sereika | - | - | 14.800 | 7,40% |
| Linas Strėlis | - | - | 12.700 | 6,35% |
| Aušrys Labinas | - | - | 12.400 | 6,20% |
| Rusnė Sereikienė | | | 12.360 | 6,18% |
| Renatas Dūdonis | - | - | 4.700 | 2,35% |
| Aldona Petrošienė | | | 3.120 | 1,56% |
| David Henry Lasky | - | - | 3.000 | 1,50% |
| Remigijus Žvirblis | - | - | 1.460 | 0,73% |

The Group did not have own shares as at 31 December 2006.

During the 2006, Agrovaldymo grupė AB increased the holdings in the subsidiary agricultural entities and acquired 4 new subsidiaries:

- Skėmių ŽŪB, Skėmių village, Radviliškis district,
- Molėtų rajono ŽŪB „Alanta", Alanta village., Molėtų district,
- Jurbarko rajono ŽŪB „Jurbarkai", Jurbarkai village., Jurbarko district,
- Ūkio žinios UAB, Vilnius.

In January 2006, a meat reproduction unit was separated from Želsvelės ŽŪB and a separate company – Želsvelės mėsos cechas was founded. This new company focuses on reproduction of meat and realization of products.

Group investments into subsidiary companies as at 31 December 2006 are as follows:

| Company name | Share capital of the Company | Ownership (%) | Share capital owned Lt | Net profit (loss) for the year 2006, (Group share) |
|---|---|---|---|---|
| Eimučių ŽŪB | 400.101 | 85,89% | 343.664 | -382.388 |
| Želsvelės ŽŪB | 10.327.369 | 92,64% | 9.566.976 | 421.139 |
| Panevėžio rajono Smilgių ŽŪB | 8.610.011 | 99,58% | 8.574.211 | 1.026.873 |
| ŽŪK „AVG Lankesa" | 3.140.570 | 90,21% | 2.833.247 | 453.622 |
| Žadžiūnų ŽŪB | 784.577 | 92,66% | 726.986 | -387.571 |
| ŽŪB „Spindulys" | 6.853.225 | 48,63% | 3.332.991 | 227.053 |
| ŽŪB „Kairėnai" | 940.529 | 75,72% | 712.184 | -203.228 |
| Kėdainių rajono Mantviliškio ŽŪB | 3.571.726 | 91,91% | 3.282.850 | -513.683 |
| ŽŪB „Vėriškės" | 1.154.808 | 81,22% | 937.935 | -357.599 |
| Anykščių rajono Nausodės ŽŪB | 1.585.085 | 94,63% | 1.499.966 | -18.575 |
| Raseinių rajono Dumšiškių ŽŪB | 1.830.282 | 98,02% | 1.794.057 | 61.458 |
| Skėmių ŽŪB | 10.232.854 | 99,88% | 10.220.262 | 2.458.664 |
| Molėtų rajono ŽŪB „Alanta" | 2.469.913 | 98,86% | 2.441.725 | 797.609 |
| Jurbarko rajono ŽŪB „Jurbarkai" | 4.260.753 | 83,98% | 3.578.256 | 657.846 |
| AVG Investment UAB | 24.485 | 100,00% | 24.485 | 9.440 |
| Ūkio žinios UAB | -2.400 | 50,00% | -1.200 | -6.200 |
| Želsvelės mėsa UAB | -276.781 | 92,64% | -256.410 | -265.674 |
| | | | | |
| IŠ VISO: | 55.907.107 | | 49.612.184 | 3.978.787 |

The shares and votes held by Agrovaldymo grupė AB in the subsidiaries as at 31 December 2006 are as follows:

| Company name | Share capital, LTL | Share owned as at 2006/12/31, LTL | Ownership, % | Total number of votes | Numb er of votes owned | Share of owned votes, % |
|---|---|---|---|---|---|---|
| Eimučių ŽŪB | 139.730 | 120.020 | 85,89% | 140 | 120 | 85,71% |
| Želsvelės ŽŪB | 625.732 | 579.660 | 92,64% | 119 | 116 | 97,48% |
| Panevėžio rajono Smilgių ŽŪB | 46.326 | 46.133 | 99,58% | 46 | 46 | 100,00% |
| ŽŪB „Spindulys“ | 1.206.214 | 586.629 | 48,63% | 2.412 | 2.276 | 94,36% |
| Žadžiūnų ŽŪB | 215.709 | 199.875 | 92,66% | 216 | 200 | 92,59% |
| ŽŪK „AVG Lankesa“ | 477.394 | 430.678 | 90,21% | 9.548 | 9.379 | 98,23% |
| Kėdainių rajono Mantviliškio ŽŪB | 63.144 | 58.037 | 91,91% | 631 | 581 | 92,08% |
| ŽŪB „Kairėnai“ | 923.403 | 699.216 | 75,72% | 8 | 8 | 100,00% |
| ŽŪB „Vėriškės“ | 230.682 | 187.360 | 81,22% | 461 | 375 | 81,34% |
| Anykščių rajono Nausodės ŽŪB | 555.266 | 525.448 | 94,63% | 5.551 | 5.253 | 94,63% |
| Raseinių rajono Dumšiškių ŽŪB | 783.203 | 767.702 | 98,02% | 783 | 768 | 98,08% |
| Skėmių ŽŪB | 1.625.338 | 1.623.338 | 99,88% | 813 | 812 | 99,88% |
| Molėtų rajono ŽŪB „Alanta“ | 19.803 | 19.577 | 98,86% | 198 | 196 | 98,99% |
| Jurbarko rajono ŽŪB „Jurbarkai“ | 1.395.860 | 1.172.268 | 83,98% | 9.306 | 7.815 | 83,98% |
| UAB „AVG Investment“ | 10.000 | 10.000 | 100,00% | 10.000 | 10.000 | 100,00% |
| UAB „Ūkio žinios“ | 10.000 | 5.000 | 50,00% | 10.000 | 5.000 | 50,00% |
| UAB „Želsvelės mėsa“ | 10.000 | 9.264 | 92,64% | 10.000 | 9.264 | 92,64% |

The Group has evident control in all the companies, except for “Spindulys” ŽŪB, but in all of them the Company exercises control over the operations.

The group does not have any branches.

During the 1st quarter of 2007, the Group acquired controlling interest in the following Companies:

- - 100 per cent of Žemės vystymo fondas UAB shares
- - 100 per cent of Žemės vystymo fondas 11 UAB shares
- - 100 per cent of Žemės vystymo fondas 12 UAB shares
- - 100 per cent of Žemės vystymo fondas 14 UAB shares
- - 100 per cent of Žemės vystymo fondas 15 UAB shares
- - 100 per cent of Žemės vystymo fondas 16 UAB shares
- - 100 per cent of Žemės vystymo fondas 17 UAB shares

- - 100 per cent of Žemės vystymo fondas 18 UAB shares
- - 100 per cent of Žemės vystymo grupė 1 UAB shares
- - 100 per cent of Žemės vystymo grupė 2 UAB shares
- - 100 per cent of Žemės vystymo grupė 3 UAB shares
- - 100 per cent of Žemės vystymo grupė 4 UAB shares
- - 100 per cent of Žemės vystymo grupė 5 UAB shares
- - 100 per cent of Žemės vystymo grupė 6 UAB shares
- - 100 per cent of Žemės vystymo grupė 7 UAB shares
- - 50 per cent of Ūkio žinios UAB shares

The subsidiary agricultural companies are of different development level, have different production potential, and area of cultivated land. The aim of Agrovaldymo grupė AB is to pick the most optimal path for each subsidiary development in order to maximize production and net returns.

One of most important goals of Agrovaldymo grupė AB is the modernization of agricultural entities. During the 2006 following investments were made:

- During 2005 – 2006 m. there were indirect support projects for modernization of milk-producing facilities approved by the NMA (National Payment Agency) for following agricultural entities: Kėdainių rajono Mantviliškio ŽŪB, ŽŪB „Kairėnai“, ŽŪB „Vėriškės“, Anykščių rajono Nausodės ŽŪB, Jurbarko rajono ŽŪB „Jurbarkai“, Raseinių rajono Dumšiškių ŽŪB, and Molėtų rajono ŽŪB „Alanta“. According to these projects, each company will receive about LTL 260 thousand during three year period from the NMA. All required investments were made in 2006.
- During 2005 – 2006 m. there were indirect support projects for modernization of nitrate facilities approved by the NMA (National Payment Agency) for following agricultural entities: Želsvelės ŽŪB and Skėmių ŽŪB. According to these projects, each company will receive about LTL 260 thousand during three year period from the NMA. All required investments were made in 2006.
- In order to increase the volume and productivity of animal – breeding activities in Želsvelės ŽŪB, there was a SAPARD project submitted to the NMA in 2004. In late autumn 2005, the agreement with NMA was signed and the project was implemented in 2006. In total, LTL 2.5 million was invested in reconstruction of farm, milking equipment, various agricultural equipment used for feed preparation and the production of the entity was increased dramatically.
- In 2005, there were 7 subsidiaries submitted SAPARD projects to the NMA. During 2006 4 of these projects were approved: modernization of milk – producing facilities in Panevėžio rajono Smilgių ŽŪB, renewal of feed preparation equipment and machinery in Anykščių rajono Nausodės ŽŪB, and plant – growing machinery in ŽŪB „Spindulys“, and Kėdainių rajono Mantviliškio ŽŪB. Total value of these projects amount to LTL 8.7 million. These projects will be carried out in 2007.
- During 2007, renewal of the old plant – growing machinery and equipment is planned. Estimated cost of investment will amount to around to LTL 3 million and will help increase the efficiency and productivity of agricultural activities, and decrease the service costs of machinery.

There is a unique accounting system being implemented in subsidiary agricultural entities, the employees are thought to use computer programs. The common goal is to use the financial and economic resources of the Group companies in the most effective way.

In 2006, the accumulated net profit of agricultural entities amounted to LTL 4.1 million (2005: LTL 2.8 million). By increasing the areas of cultivated land, focusing on the most productive agricultural activities and investing into new technologies and modernization of companies the Group will achieve LTL 5.5 – 7 million net profit in the coming years.

The long – term goal of Agrovaldymo grupė AB is to gather a strong group of agricultural entities, which would produce high quality primary agricultural production, have a modern management structure and control over 30 000 hectares of cultivated land. The group would be constantly growing, advancing and effective – attractive to suppliers, customers and employees.

The Agrovaldymo grupė AB report concerning the compliance with Governance Code for the companies listed on the regulated market is attached hereby.

Chairman of the Board

Valentas Šulskis

*41. Information on audit*

## *INDEPENDENT AUDITOR'S REPORT*

**TO THE SHAREHOLDERS OF AGROVALDYMO GRUPĖ AB**

1. We have audited the accompanying consolidated financial statements of Agrovaldymo grupė AB group, which comprise the balance sheet as at 31 December 2006, 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. We have also reviewed the attached annual report. The financial statements have been prepared in accordance with the legislation on bookkeeping and financial reporting of the Republic of Lithuania and International Financial Reporting Standards.

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

3. 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. 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.

4. 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 have also reviewed whether the information presented in the annual report agrees with the financial statements but did not evaluate management assessments, business plans or forecasts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

5. In our opinion, the financial statements give a true and fair view of the financial position of Agrovaldymo grupė AB group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and other legislation on bookkeeping and financial reporting of the Republic of Lithuania.

6. Based on our review, nothing has come to our attention that causes us to believe that the annual report of Agrovaldymo grupė AB does not materially agree with the audited financial statements.

Rimas Butkevičius
Auditor’s Certificate No. 000036

UAB “Tezaurus auditas”
Audit Company Certificate No. 001211

23 April 2007
Vilnius, Lithuania

# VI. INFORMATION ON THE MANAGING BODIES OF THE ISSUER

***42. Members of the managing bodies***

The managing bodies of the company are general meeting of the shareholders, the Board and Managing Director. The Supervisory Board is not elected in the Company. The decisions of shareholders meetings, concluded according to the statutes of the Company, are mandatory to the shareholders, to the Board, to the Director, and to other employees of the Company. Only shareholders who hold interest in the Company at the end of shareholder meeting accounting day can participate in the meetings. Shareholder meeting accounting day is the 5th working day until the general shareholders meeting. The person participating in the meeting and owing the right to vote must submit the personal ID card. The third person – representative of the shareholder, must additionally submit the document confirming his right to vote in the general meeting.

All members of the Board together form a colegialiate management body. The Board of directors is formed from 5 members. The chairman is elected by the Board. The Boardmembers are elected by the shareholder meeting.

The Board of Directors elect and recall the Director, decides upon remuneration and other working conditions, approves official rulebook, awards and handles penalties. The Director is the head of the Company. The Director organizes and manages the everyday operations of the Company.

42.1 Positions, names and surnames, information on participation in the share capital

The Board of directors (27 May 2007):

| Name Surname | Position | Shares owned, percent | Votes owned, percent |
|---|---|---|---|
| Valentas Šulskis | Chairman of the Board | 1,00 | 1,00 |
| Gediminas Žiemelis | Board member | 0 | 0 |
| Aušrys Labinas | Board member | 0,56 | 0,56 |
| Domantas Savičius | Board member | 0 | 0 |
| Darius Šulnis | Board member | 0 | 0 |

Participation in other companies capital:

| Name, surname | Participation in other companies equity (name of company, position) | Participation in other companies equity (over 5 percent) |
|---|---|---|
| Valentas Šulskis | Žadžiūnų ŽŪB board member, Eimučių ŽŪB board member, ŽŪK "AVG Lankesa" board member, Želsvelės ŽŪB board member, Raseinių raj. Dumšiškių ŽŪB board member, Kėdainių raj. Mantviliškio ŽŪB board member, ŽŪB "Vėriškės" board member, Skėmių ŽŪB board member, Molėtų raj. ŽŪB „Alanta“ board member, Anykščių raj. Nausodės ŽŪB board member. | none |
| Gediminas Žiemelis | AB „flyLAL Group“ chairman of the board, UAB „Finhill“ director, UAB „LAL development“ director UAB „ŽIA valda development“ director. | Re Invest UAB<br>48 percent<br>ŽIA valda UAB<br>90 percent |
| Aušrys Labinas | Agricultural entities association „Stambus ūkis“ president UAB „AVG investment“ director, FK "Ekranas" president, chairman of the board, Želsvelės ŽŪB board member, Kėdainių raj. Mantviliškio ŽŪB board member, Anykščių raj. Nausodės ŽŪB board member, Žadžiūnų ŽŪB board member, Eimučių ŽŪB board member, Vėriškių ŽŪB board member, Dumšiškių ŽŪB board member, Skėmių ŽŪB board member, Molėtų rajono ŽŪB „Alanta“ board member, Jurbarko raj. ŽŪB „Jurbarkai“ board member, ŽŪK „AVG Lankesa“ board member. | ANDR UAB<br>50 percent<br>Sporto investicijų valdymas UAB<br>10 percent |
| Darius Šulnis | AB „Invalda“ president, board member, AB „Sanitas“ chairman of the board, UAB „Hidroprojektas“ chairman of the board, AB FMĮ „Finasta“ chairman of the board, AB „Finasta įmonių finansai“ chairman of the board, SIA „Industrial and logistics centre „Lapegles“ (Latvija) chairman of supervisory board, SIA „DOMMO“ (Latvija) chairman of supervisory board, SIA „AMMO“ (Latvija) chairman of supervisory board, SIA „Celtniecibas Pasaule“ (Latvija) chairman of supervisory board, AB „Vilniaus baldai“ board member, UAB „Umega“ board member. | Invalda AB<br>9,94 percent<br>Golfas UAB<br>31 percent |
| Domantas Savičius | Finance Director (Agrovaldymo grupė AB) | none |

42.2. Additional information on the Chairman of the board, head of administration and Finance Director: education, profession, employers and positions occupied during the last 10 financial (business) years:

Chairman of the Board (director) – Valentas Šulskis

| Education (profession) | Employers over the last 10 years | Positions held | Data about criminal records for business primes |
|---|---|---|---|
| University education. Vilniaus Gedimino Technical University, Industrial civil construction Engineer | 1994 – 2000 Sanitex UAB<br><br>2000 – 2005 Sanitex UAB<br><br>2005 – 2006 Girteka UAB<br><br>2006 – Agrovaldymo grupė AB | Head of department<br><br>Director of Vilnius branch<br><br>Head of transport department<br><br>Board of Director (director) | None |

Finance director – Domantas Savičius

| Education (profession) | Employers over the last 10 years | Positions held | Data about criminal records for business primes |
|---|---|---|---|
| University education. SSE Riga (Latvija). Bachelor of business administration (finance specialisation). | 2001 – 2004 PricewaterhouseCoopers UAB<br><br>2004 – 2005 Rubicon Group UAB<br><br>2005 – Agrovaldymo grupė AB | Chief<br><br>Internal audit expert<br><br>Finance Director | None |

42.3. Data about participation in the activities of other companies, institutions and organisations

Disclosed in 42.1.

42.4. Data on the still valid criminal records of the members of the managing bodies for crimes on property, order of business, finance.

None.

42.5. Data on the beginning of Office of each managing body and it‘s terms

The Statuttes of the company sets forth that the Board shall be elected for two years. The Office term of the present Board expires on 27 April 2009. The Director is elected and recalled by a resolution of the Board.

***43. Information about payment and loans to the members of managing bodies (Board and members of the administration).***

43.1 Information on the salaries, bonuses and other payments from profit in average amounts per one person.

In 2006, salaries and other payments to the Senior Management of the Company amounted to LTL 158 thousand (2005: LTL 52 thousand). Number of directors in 2006: 5 (2005: 3).

Shareholder and member of the Board Aušrys Labinas had a balance of LTL 262 thousand. Chairman of the Board Valentas Šulskis had taken a LTL 280 thousand advance.

43.2. The sums paid to the Issuer's members of Council of Observers, Board, members of Administration as salaries, bonuses and other payments from profit during the Report period ( for each category of the mentioned persons ), received from companies where the share of share capital of the Issuer is over 20 per cent.

None.

43.3. Loans, granted guaranties and warranties for the members of managing bodies, which ensures their liabilities.

None.

***44. Transactions with interested persons***

Information on related party transactions:

(i) Loans to Senior Management, members of the Board, and other related parties

As at 31 December 2006, the advances to shareholders of the Company amounted to LTL 1 551 thousand (2005: LTL 1 409 thousand). Shareholder and member of the Board Titas Sereika had taken advance for the amount of LTL 1 009 thousand (2005: LTL 1 009 thousand), while shareholder and member of the Board Aušrys Labinas had a balance of LTL 262 thousand (2005: LTL 401 thousand). Chairman of the Board Valentas Šulskis had taken a LTL 280 thousand advance (2005: nill).

(ii) Payments to the members of the Board and Senior Management

In 2006, salaries and other payments to the Senior Management of the Company amounted to LTL 158 thousand (2005: LTL 52 thousand).

(iii) Other transactions with related parties

All the shareholders of Agrovaldymo Grupė AB (Note 1), owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, are considered to be related parties.

In May 2005 Finansų spektras UAB sold it‘s share in Company to another Invalda AB Group company Pozityvios investicijos AB. On 31 December 2005, all Group‘s commitments to Finansų spektras UAB were transferred to Pozityvios investicijos AB.

On 30 June 2006, Pozityvios investicijos AB was merged into Invalda AB.

Trading transactions with related parties were carried out on commercial terms and conditions and market prices.

The following transactions were carried out with related parties:

| | 2006 | 2005 |
|---|---|---|
| *i) Purchases of goods and services* | | |
| ŽIA valda UAB | 218 | 97 |
| Kelmės pieno centras UAB | 75 | - |
| Mindaugas Juozaitis | 27 | - |
| Finasta įmonių finansai UAB | 17 | - |
| Mantas Juozaitis | 16 | - |
| Sanitex BĮ UAB | 4 | - |
| FMĮ Finasta AB | 1 | 10 |
| Monterin Invest Ltd. | - | 2 |
| | 358 | 109 |
| *ii) Interest accrued* | | |
| Sanitex BĮ UAB | 596 | 101 |
| Finansų spektras UAB | 295 | 830 |
| ŽIA valda UAB | 49 | 4 |
| Aušrys Labinas | 28 | - |
| Monterin Invest Ltd | - | 4 |
| | 968 | 939 |

Balances as at 31 December arising from the transactions with related parties:

i) Assets

| | 2006 | 2005 |
|---|---|---|
| **Loans issued** | | |
| Aušrys Labinas | 600 | - |
| Total: | 600 | - |
| **Advances issued** | | |
| Titas Sereika | 1 009 | 1 009 |
| Aušrys Labinas | 262 | 401 |
| Valentas Šulskis | 280 | - |
| Total: | 1 551 | 1 409 |
| Total balances included in the Assets of the Group | **2 151** | **1 409** |

ii) Liabilities

| | 2006 | 2005 |
|---|---|---|
| **Other financial liabilities** | | |
| Sanitex BĮ UAB | 4 086 | 3 640 |
| Pozityvios investicijos AB | 1 053 | 5 827 |
| Aušrys Labinas | 1 003 | - |
| ŽIA valda UAB | 11 | 54 |
| Monterin Invest Ltd | - | 54 |
| | 6 153 | 9 575 |
| **Trade payables** | | |
| ŽIA valda UAB | 2 | 32 |
| FMĮ Finasta AB | - | 63 |
| Monterin Invest Ltd | - | 2 |
| | 2 | 97 |
| Total balances included in the liabilities of the Group | **6 155** | **9 672** |

## VII. THE NEWEST AND ESSENTIAL EVENTS IN THE ACTIVITY OF THE ISSUER, ITS PERSPECTIVES

### *45. The newest events in the activity of the Issuer*

During the 1st quarter of 2007, the Group acquired controlling interest in the following Companies:

- \- 100 per cent of Žemės vystymo fondas UAB shares
- \- 100 per cent of Žemės vystymo fondas 11 UAB shares
- \- 100 per cent of Žemės vystymo fondas 12 UAB shares
- \- 100 per cent of Žemės vystymo fondas 14 UAB shares
- \- 100 per cent of Žemės vystymo fondas 15 UAB shares
- \- 100 per cent of Žemės vystymo fondas 16 UAB shares
- \- 100 per cent of Žemės vystymo fondas 17 UAB shares
- \- 100 per cent of Žemės vystymo fondas 18 UAB shares
- \- 100 per cent of Žemės vystymo grupė 1 UAB shares
- \- 100 per cent of Žemės vystymo grupė 2 UAB shares
- \- 100 per cent of Žemės vystymo grupė 3 UAB shares
- \- 100 per cent of Žemės vystymo grupė 4 UAB shares
- \- 100 per cent of Žemės vystymo grupė 5 UAB shares
- \- 100 per cent of Žemės vystymo grupė 6 UAB shares
- \- 100 per cent of Žemės vystymo grupė 7 UAB shares
- \- 50 per cent of Ūkio žinios UAB shares

Significant events in 2007 m.:

All the information on the significant to the Company events was timely disclosed over the CNS system on the Vilnius Stock Exchange.

**2007-05-04 Minutes of extraordinary shareholders meeting**

The resolutions for the General Shareholders Meeting of 4 May 2007 of Agrovaldymo grupė AB (hereinafter - the Company)

1. Regarding the bonds issue.
a) To issue new 366 days 140 000 unit (one hundred fourty thousand) discounted bonds issue, with par value of LTL 100 (one hundred litas); total value of new bonds issue is LTL 14 000 000 (fourteen million litas).
b) To set redemption price of one security at LTL 100 (one hundred litas).
c) To set total costs of issue at LTL 9 (nine litas) for one security.
d) To set final date of bonds subsription at 22 June 2007.
e) Bond coupon will be paid on bond redemption day and will be calculated into redemption price, which will be equal to LTL 100 (one hundred litas).

2. Regarding the selection of consultants for bonds issue.
a) To appoing UAB FMI "Orion Securities" as consultants for bonds issue.
b) To commission director of the Company Mr. Valentas Šulskis to sign a contract with consultants, to submit the circular to the Lithuanian Securities Commission, to submit the application to list the bonds issue on the debt securities list of the Vilnius Stock Exchange and carry out other necessary actions ragarding this bond issue.

3. Regarding the pledge of owned agricultural entities.
To pledge the shares of subsidiary agricultural entities to the bondholders of the new LTL 14 000 000 (fourteen million litas) bond issue.

4. Regarding the commission to pledge owned agricultural entities.
To commission director of the Company Mr. Valentas Šulskis to pledge the shares of subsidiary agricultural entities to the bondholders of the new LTL 14 000 000 (fourteen million litas) bond issue.

**2007-04-27 Minutes of Annual general shareholder meeting**

The resolutions for the General Shareholders Meeting of 27 April 2007 of Agrovaldymo grupė AB (hereinafter - the Company)

1.The Auditor's Report.
To take into consideration the Auditor's comments presented in his report, while approving the Company's standalone and consolidated annual financial statements for the year ended 31 December 2006.

2. The Annual Report of the Company for the year 2006 and the approval of the Company's Annual Financial Statements for the year 2006.
2) To approve the Company's Annual Report for the year ended 31 December 2006.
2) To approve the Company's standalone and consolidated Annual Financial Statements for teh year ended 31 December 2006.

3. Company's profit appropriation for the year 2006.
To approve the Company's net audited profit (acc.to IFRS) appropriation as follows:
1) not distributed profit at the end of the previous financial year: -603 thousand LTL (-175 thousand EUR);
2) net profit for the year: 14 375 thousand LTL (4 163 thousand EUR);
3) total profit available for distribution: 13 772 thousand LTL (3 989 thousand EUR);
4) profit allocation to the required reserves: 985 thousand LTL (285 thousand EUR);
5) not distributed profit brought forward to the next year: 12 787 thousand LTL (3 704 thousand EUR).

4. Increase in the Companies share capital from the not distributed reserves.
To increase the share capital of the Company from 200 thousand LTL (58 thousand EUR) to 10 000 thousand LTL (2 896 thousand EUR) by issuing 9 800 thousand new ordinary shares with par value of 1 LTL each. To pay for the shares from the Companies not distributed reserves. To distribute new shares to the existing shareholders by dividing the new issue proportionally to the shares held at the day of Annual meeting.

5. Recall of the Board of the Company.
To recall from the Board of the Company all members of the Board: Valentas Šulskis, Gediminas Žiemelis, Darius Šulnis, Aušrys Labinas, Titas Sereika.

6. Election of the Board of the Company.
To elect to the Board of the Company for new term of the Board (for 2 years):
1) Mr. Valentas Šulskis
2) Mr. Gediminas Žiemelis
3) Mr. Darius Šulnis
4) Mr. Aušris Labinas
5) Mr. Domantas Savičius

7. Election of the chairman of the Board.
To elect Mr. Valentas Šulskis as chairman of the Board.

8. Change of the Articles of the Company.
1) To amend the paragraphs of the Articles as proposed by the Board, include the new wording and approve the amendments.
2) Taking into consideration the amendments of the Company's Articles, to approve the new edition of the Company's Articles.

9. Commission of Director (with the right to recommission) to sign the amended reading of the Company's Articles take all the necessary actions related to the amendments made in the Company's Articles and related to the registration of the amended Articles into the Register of the Legal Entities of the Republic of Lithuania.

To authorize and commission Mr. Valentas Šulskis, the Director of the Company (with the right to recommission) to sign the amended reading of the Company's Articles, also to sign all the other relevant documents and take all the necessary actions related to the amendments made in the Company's Articles and related to the registration of the amended Articles into the Register of the Legal Entities of the Republic of Lithuania.

## 2007-04-05 The Extraordinary General Meeting will be held on 4 May 2007

The Extraordinary General Meeting of Agrovaldymo grupė AB (code 1262 34360, registered address: Smolensko st. 10, Vilnius) Shareholders will be held at conference room of Agrovaldymo grupė AB, Smolensko st. 10, Vilnius, at 9.00 on 4 May 2007. Registration will take place from 8.15 till 8.45.

The meeting is convened by initiative of the Board and following the decision of the Board adopted on 4 April 2007.

The shareholders' registration day for the General Meeting of Shareholders is 25 April 2007.

Proposed Agenda:

1. Regarding the bonds emission.
2. Regarding the
3. Regarding the pledge of owned agricultural entities.
4. Regarding the commission to pledge owned agricultural entities.

Shareholders who at the end of the shareholders' registration day for the General Meeting of Shareholders, i.e. 25 April 2007, will be on the shareholders list of the Company have a right to participate and vote at the General Meeting of Shareholders personally or by proxy, or represented by the person with whom an agreement on the transfer of voting rights is concluded.

All persons attending the General Meeting of Shareholders and having a voting right must bring with them a person's identification document. Shareholders' representative must present to the General Meeting an original proxy issued in the form and content established by the Law.

From 20 April 2007 shareholders could get familiarised with the documents possessed by the Company related to the agenda of the Meeting, including draft resolutions, at the headquarters of Agrovaldymo grupė AB, Smolensko st. 10, Vilnius.

## 2007-03-14 Agrovaldymo grupė AB acquired Žemės vystymo fondas UAB

The largest agriculture investment company in Lithuania Agrovaldymo grupė AB acquired Žemės vystymo fondas UAB companies group, which owns over 8.5 thousand of hectares of agricultural land. After the acquisition, the agricultural land owned and cultivated by Agrovaldymo grupė AB increased from 17.5 thousand hectares to 23.5 thousand hectares.

**<u>2007-03-01 Consolidated unaudited results for the year 2006</u>**

Consolidated net profit of Agrovaldymo grupe AB for the year ended 31 December 2006 according to the International Financial Reporting Standards (IFRS) amounted to LTL 5.428 million (EUR 1.572 million). The revenues over the year 2006 totalled LTL 25.551 million (EUR 7.400 million).

Over the year 2005, the consolidated net result of the Group amounted to LTL 5.335 million (EUR 1.545 million), while revenues over the same period totalled LTL 23.025 million (EUR 6.669 million).

***46. Significant events***

<u>Significant events in 2006 m.:</u>

All the information on the significant to the Company events was timely disclosed over the CNS system on the Vilnius Stock Exchange.

**<u>2006-11-02 Consolidated unaudited results for 9 month period ended 30 September 2006</u>**

Consolidated net profit of Agrovaldymo grupė AB for the 9 month period ended 30 September 2006 according to the International Financial Reporting Standards (IFRS) amounted to LTL 5.606 million (EUR 1.624 million). The revenues over the 9 month period in 2006 totalled LTL 17.550 million (EUR 5.083 million).

Over the 9 months of year 2005, the consolidated net result of the Group amounted to LTL 5.140 million (EUR 1.489 million), while revenues over the same period totalled LTL 15.182 million (EUR 4.397 million).

**<u>2006-09-26 Agrovaldymo grupė AB borrows LTL 25 million from DnB NORD bank AB</u>**

Agrovaldymo grupė AB (AVG) signed a LTL 25 million (EUR 7.24 million) loan agreement with DnB NORD bank AB. Around LTL 14 million (EUR 4.05 million) will be used to refinance existing AVG group companies bank loans at more favorable conditions, and the remaining LTL 11 million (EUR 3.19 million) will be invested into expansion of the primary agricultural production units.

According to the loan agreement, the first loan repayment will be made on 30 June 2008. This loan condition will allow AVG not only to rebuild the decreased production level of some agricultural activities which occurred because of the drought, but to surpass them.

**<u>2006-08-01 Consolidated unaudited results for the 1st half of year 2006</u>**

Consolidated net profit of Agrovaldymo grupė AB for the 6 month period ended 30 June 2006 according to the International Financial Reporting Standards (IFRS) amounted to LTL 7.012 million (EUR 2.031 million). The revenues over the 1st half of the year totalled LTL 10.896 million (EUR 3.156 million).

Over the 1st half of year 2005, the consolidated net result of the Group amounted to LTL 5.220 million (EUR 1.512 million), while revenues over the same period totalled LTL 7.902 million (EUR 2.288 million).

***47. The strategy of activity and its envisioned changes during the nearest financial (business) year***

During 2007, renewal of the old plant – growing machinery and equipment is planned. Estimated cost of investment will amount to around to LTL 3 million and will help increase the efficiency and productivity of agricultural activities, and decrease the service costs of machinery.

There is a unique accounting system being implemented in subsidiary agricultural entities, the employees are thought to use computer programs. The common goal is to use the financial and economic resources of the Group companies in the most effective way.

In 2006, the accumulated net profit of agricultural entities amounted to LTL 4.1 million (2005: LTL 2.8 million). By increasing the areas of cultivated land, focusing on the most productive agricultural activities and investing into new technologies and modernization of companies the Group will achieve LTL 5.5 – 7 million net profit in the coming years.

The long – term goal of Agrovaldymo grupė AB is to gather a strong group of agricultural entities, which would produce high quality primary agricultural production, have a modern management structure and control over 30 000 hectares of cultivated land. The group would be constantly growing, advancing and effective – attractive to suppliers, customers and employees.