

AB Alita

Annual statutory accounts for
2004

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Company details

AB Alita

Telephone: +370 315 57243
Telefax: +370 315 79467
Registration No.: AB 2002-37
Company code: 149519891
Registered office: Alytus, Miškininkų 17

Board of Directors

Vytautas Junevičius
Vilmantas Pečiūra
Arvydas Jonas Stankevičius
Darius Vėželis

Management

Vytautas Junevičius (General Director)
Vilmantas Pečiūra (Finance Director)
Ramutė Aleksynienė (Chief Accountant)

Auditors

KPMG Lietuva

Banks

AB Vilniaus Bankas
AB Šiaulių Bankas
AB Hansabankas
Nord/LB Lietuva

Annual report

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

The annual statutory accounts have been prepared in accordance with Lithuanian Business Accounting Standards. We consider that the accounting policies used are appropriate and that the annual statutory accounts thus give a true and fair view.

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

Vilnius, 14 April 2005

Management:

Vytautas Junevičius
General Director

Board of Directors:

Vytautas Junevičius
(Chairman)

Vilmantas Pečiūra

Arvydas Jonas Stankevičius

Darius Vėželis

Report of the auditor to the shareholders of AB Alita

Scope

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

Respective responsibilities of management and auditors

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

Basis of opinion

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

Qualification

The company has stated investment in the subsidiary at cost, however, following Lithuanian Business Accounting Standards, such an investment should be stated applying the equity method. If the company was reflecting the investment as to the equity method, the investment should have been reduced by 2.5 mLitas, decreasing the result and the equity with the same amount. The company reports the investment at cost following requirements of International Financial Reporting Standards, which are applicable for the company as of the year 2005.

Opinion

In our opinion, except for the impact of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2004, and of the results of its operations and cash flows for the year then ended in accordance with Lithuanian Business Accounting Standards.

Vilnius, 14 April 2005
KPMG Lietuva

Leif Rene Hansen
Danish State Authorised
Public Accountant

Domantas Dabulis
Certified Auditor

Balance sheet

(Litas)

Row No.	ASSETS	Note No.	Financial year	Previous financial year
A.	NON-CURRENT ASSETS		104,045,713	60,210,066
I.	INTANGIBLE NON-CURRENT ASSETS		381,284	86,477
I.1.	Rights acquired			86,477
I.2.	Software		370,116	
I.3.	Other intangible non-current assets		11,168	
II.	TANGIBLE NON-CURRENT ASSETS		54,256,546	58,173,512
II.1.	Land		27,937	
II.2.	Buildings		26,783,417	28,138,631
II.3.	Plant		2,484,822	2,694,088
II.4.	Transport vehicles		1,064,332	1,235,289
II.5.	Machinery, tools and equipment		21,430,777	23,238,084
II.6.	Other tangible non-current assets		2,465,261	2,867,420
II.7.	Construction in progress and prepayments			
III.	FINANCIAL NON-CURRENT ASSETS		49,407,883	1,950,077
III.1.	Investments in subsidiaries		33,954,552	
III.2.	Participating interests		5,753,165	1,949,911
III.3.	Other financial non-current assets		9,700,166	166
B.	CURRENT ASSETS		47,188,912	69,338,004
I.	INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS		25,039,257	30,496,160
I.1.	Raw materials and consumables		17,144,148	21,026,761
I.2.	Finished goods		2,413,162	3,061,779
I.3.	Work in progress		4,136,167	4,607,343
I.4.	Goods for resale		42,533	117,640
I.5.	Prepayments		1,303,247	1,682,637
I.6.	Contracts in progress			
II.	AMOUNTS RECEIVABLE WITHIN ONE YEAR		8,653,773	14,291,228
II.1.	Trade debtors		7,935,625	7,197,874
II.2.	Due from subsidiaries		589,479	
II.3.	Other amounts receivable		128,669	7,093,354
III.	OTHER CURRENT ASSETS		1,191,677	0
III.1.	Term deposits			
III.2.	Other current assets		1,191,677	
IV.	CASH AND CASH EQUIVALENTS		12,304,205	24,550,616
	TOTAL ASSETS		151,234,625	129,548,070

Balance sheet

(Litas)

Row No.	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
C.	SHAREHOLDERS' EQUITY		58,630,426	102,702,219
I.	SHARE CAPITAL		50,827,209	73,088,135
I.1.	Authorised (subscribed) capital		50,827,209	73,088,135
II.	REVALUATION RESERVE (RESULTS)			
III.	RESERVES		18,487,178	18,027,105
III.1.	Compulsory reserve		7,288,016	6,827,943
III.2.	Non distributable reserves		11,199,162	11,199,162
III.3.	Distributable reserves			
IV.	RETAINED EARNINGS (LOSSES)		(10,683,961)	11,586,979
IV.1.	Current year profit (loss)		13,195,732	7,916,594
IV.2.	Previous years profit (loss)		(23,879,693)	3,670,385
D.	GRANTS, SUBSIDIES			
E.	AMOUNTS PAYABLE AND LIABILITIES		92,604,199	26,845,851
I.	AMOUNTS PAYABLE AFTER ONE YEAR AND LONG-TERM LIABILITIES		59,954,020	
I.1.	Financial liabilities to credit institutions		59,954,020	
I.2.	Leasing (financial lease) or similar liabilities			
II.	AMOUNTS PAYABLE WITHIN ONE YEAR AND SHORT-TERM LIABILITIES		32,650,179	26,845,851
II.1.	Current year portion of long-term debts		11,687,107	
II.2.	Financial liabilities			
II.2.1.	Credit institutions			
II.2.2.	Other financial liabilities			
II.3.	Trade creditors		5,006,172	6,797,715
II.4.	Liabilities to subsidiary			
II.5.	Prepayments received		4,063,406	643,415
II.6.	Payable corporate income tax		312,702	1,970,384
II.7.	Other taxes		10,138,445	15,487,286
II.8.	Employment related liabilities		1,306,818	1,788,196
II.9.	Other amounts payable and liabilities		135,529	158,855
	TOTAL EQUITY AND LIABILITIES		151,234,625	129,548,070

(Duties of the administration manager of the company)_____
(Signature)_____
(First and last names)

Profit and loss account

(Litas)

Row No.	Items	Note No.	Financial year	Previous financial year
I.	SALES		100,212,248	106,410,487
I.1.	Income from sales of production		99,510,617	104,558,879
I.2.	Income from other sales		701,631	1,851,608
II.	COST OF SALES		55,333,260	65,055,708
II.1.	Cost of the production sold		54,882,954	63,626,830
II.2.	Cost of other sales		450,306	1,428,878
III.	GROSS PROFIT (LOSS)		44,878,988	41,354,779
IV.	OPERATING EXPENSES		28,578,294	31,632,085
IV.1.	Sales expenses		16,663,898	14,201,905
IV.2.	General and administration expenses		11,914,396	17,430,180
V.	OPERATING PROFIT (LOSS)		16,300,694	9,722,694
VI.	OTHER ACTIVITIES		(214,862)	194,342
VI.1.	Income		1,308,499	1,106,557
VI.2.	Expenses		1,523,361	912,215
VII.	FINANCIAL AND INVESTING ACTIVITIES		(754,470)	414,299
VII.1.	Income		1,997,230	497,430
VII.2.	Expenses		2,751,700	83,131
VIII.	ORDINARY PROFIT (LOSS)		15,331,362	10,331,335
IX.	EXTRAORDINARY GAIN			
X.	EXTRAORDINARY LOSS			
XI.	PROFIT (LOSS) BEFORE TAXATION		15,331,362	10,331,335
XII.	CORPORATE INCOME TAX		2,135,630	2,414,741
XIII.	NET PROFIT (LOSS)		13,195,732	7,916,594

(Duties of the administration manager of the company)

(Signature)

(First and last names)

Statement of changes in equity (Litas)

	Paid in authorised capital	Share premium account	Own shares (-)	Legal reserves	Other reserves		Retained earnings	Total
				Compulsory	Non-distributable	Distributable		
1. Balance at the beginning of the previous financial year	73,088,135			6,827,943	11,199,162	0	2,385,504	93,500,744
2. Result of changes in the accounting policies applied				-273,191			2,458,717	2,185,526
3. Result of corrections of fundamental errors							1,284,881	1,284,881
4. Restated balance at the beginning of the previous financial year	73,088,135			6,554,752	11,199,162		6,129,102	96,971,151
5. Revaluation of tangible non-current assets								
6. Revaluation of financial non-current assets								
7. Acquisition / sale of own shares								
8. Not recognised profit / loss in the Profit and Loss Account								
9. Net profit / loss for the current financial year							7,916,594	7,916,594
10. Dividends							-2,185,526	-2,185,526
11. Other payments								
12. Reserves allocated				273,191			-273,191	
13. Reserves used								
14. Increase / decrease in capital								
15. Balance at the end of the previous financial year	73,088,135			6,827,943	11,199,162		11,586,979	102,702,219
16. Revaluation of tangible non-current assets								
17. Revaluation of financial non-current assets								
18. Acquisition of own shares								
19. Not recognised profit / loss in the Profit and Loss Account (merger adjustments)							-35,006,599	-35,006,599
20. Net profit / loss for the current financial year							13,195,732	13,195,732
21. Dividends								
22. Other payments								
23. Reserves allocated				460,073			-460,073	
24. Reserves used								
25. Increase / decrease in capital	-22,260,926							-22,260,926
26. Balance at the end of the financial year	50,827,209			7,288,016	11,199,162	0	-10,683,961	58,630,426

Note: decrease in retained earnings of 35,007 tLitas and in share capital of 22,261 tLitas during 2004 relates to the merger with AB Invinus.

(Duties of the administration manager of the company)

(Signature)

(First and last names)

Cash flow statement

(Litas)

Row No.	Items	Note No.	Financial year	Previous financial year
I.	Cash flow from operating activities			
I.1.	Net profit (loss)		13,195,732	7,916,594
I.2.	Depreciation and amortisation costs		5,731,233	5,160,811
I.3.	(Increase) decrease in inventories		5,077,513	(1,752,520)
I.4.	(Increase) decrease in prepayments		208,713	(484,261)
I.5.	(Increase) decrease in trade receivables		(1,916,709)	(386,225)
I.6.	(Increase) decrease in liabilities of subsidiaries		589,479	
I.7.	(Increase) decrease in other amounts receivable		6,964,685	(2,073,260)
I.8.	(Increase) decrease in trade payables		(1,791,543)	3,108,085
I.9.	Increase (decrease) in profit tax liabilities		(1,657,682)	635,208
I.10.	Increase (decrease) in employment liabilities		(481,378)	459,958
I.11.	Increase (decrease) in received prepayments		3,419,991	(90,002)
I.12.	Increase (decrease) in other amounts payable and liabilities		(5,372,167)	5,710,834
I.13.	Increase (decrease) in write - offs and provisions		1,846,559	3,681,467
I.14.	Elimination of results of financial and investing activities		754,370	1,910,033
I.15.	Profit from transfer of non current assets		(37,126)	(89,812)
	Net cash flow from operating activities		26,531,670	23,706,910
II.	Cash flow from investing activities			
II.1.	Transfer (acquisition) of non-current assets		(3,168,506)	(5,602,863)
II.2.	Transfer (acquisition) of investments to subsidiaries		(33,954,552)	
II.3.	Transfer (acquisition) of other investments		(2,999,507)	(147,294)
II.4.	Dividends, interest received		429,549	228,473
II.5.	Other increase (decrease) in cash flow from investing activities		(875,590)	
	Net cash flow from investing activities		(40,568,606)	(5,521,684)

Cash flow statement

(Litas)

Row No	Items	Note No.	Financial year	Previous financial year
III.	Cash flow from financial activities			
III.1.	Cash flow related to owners of the company			(2,175,626)
III.2.	Cash flow related to other financing sources			
III.2.1.	Loans received from credit institutions		9,999,308	
III.2.2.	Loans repaid to credit institutions		(5,155,030)	
III.2.3.	Interest paid		(1,842,580)	(2,504)
III.2.4.	Loans issued to employees		(1,191,677)	
III.2.5.	Other increase (decrease) in cash flow from financial activities		(14,565)	188,331
	Net cash flow from financial activities		1,795,456	(1,989,799)
V.	Impact of currency exchange fluctuations on the balance of cash and cash equivalents		(4,931)	66,204
VI.	Increase (decrease) in net cash flow		(12,246,411)	16,261,631
VII.	Cash and cash equivalents in the beginning of the period		24,550,616	8,288,985
VIII.	Cash and cash equivalents at the end of the period		12,304,205	24,550,616

(Duties of the administration manager of the company)

(Signature)

(First and last names)

Notes to the financial statements

1. Background information

The company Alita was founded in 1963; in 1995 the state owned company Alita was reregistered to a joint stock company.

In 2004, AB Alita performed business - financial activity registered in the Articles of Association of the company.

Comparison of the main ratios of AB Alita for the year 2004 to the year 2003

	Ratio	Measure unit	2004	2003	Comparison percentage
1.	Sales income	tLitas	100,212.2	106,410.5	94.2
2.	Net profit	tLitas	13,195.7	7,916.6	166.7
3.	Finished goods				
3.1	Sparkling grape wine	HLT	22,768.6	20,251.4	112.4
3.2	Carbonated wine drinks	HLT	29,826.21	29,233.9	102.0
3.3	Alcohol cocktails				
	-alcohol cocktails	HPA	764.38	922.6	82.8
	-cider cocktails	HLT	2,224.9	1,012.4	219.8
3.4	Cider	HLT	3,739.6	4,540.4	82.4
3.5	Total grape wine, incl.	HLT	2,465.0	4,427.6	55.7
	-natural grape wine	HLT	579.3	1,813.1	32.0
	-aromatic grape wine	HLT	1,885.7	2,614.5	72.1
3.6.	Fruit wine	HLT	16,299.5	17,427.8	93.5
3.7	Total strong drinks, incl.	HPA	27,619.7	20,337.5	135.8
	-vodka	HPA	19,733.6	14,043.6	140.5
	-other strong drinks	HPA	7,886.1	6,293.9	125.3
3.8	Apple juice concentrate	tonnes	-	2,454.3	-
3.9.	Apple aromate	tonnes	-	97.7	-
3.10	Dry pomace	tonnes	-	902.2	-
4.	Number of employees	persons	375	443	84.7
5.	Remuneration	tLitas	7,303.7	8,759.9	83.4
6.	Average salary	Litas	1,623.0	1,647.8	98.5

In 2004 sales volumes decreased and comprised 94.2 per cent of the sales of 2003.

During the accounting period, production of sparkling wine increased by 12.3 per cent, and production of carbonated sparkling wines in 2004 increased by 2 per cent. Production of alcohol cocktails in 2004 made less, compared to the previous accounting period, and it comprised 82.8 per cent of the level of the production of 2003. Cider cocktails production in 2004 increased by 2.2 times. Production of cider decreased and comprised 82.4 per cent of the level of 2003.

Production of wine decreased during the accounting period. Grape wine production comprised only 55.7 per cent of the year 2003 level, and fruit wine - 93.5 per cent.

Production of strong drinks increased by 35.8 per cent, vodka produced comprised 40.5 per cent more compared to 2003, and production of other strong drinks increased by 25.3 per cent.

Apple products were not produced in 2004.

Number of employees decreased due to implementation of new technologies and development of the organisation structure.

Information about business segments (tLitas):

Segments (production, goods, types of activity)	Ratios					
	Income		Costs		Operating profit	
	2004	2003	2004	2003	2004	2003
Sparkling grape wine and sparkling drinks	31,837	32,979	19,457	20,485	12,380	12,494
Alcohol cocktails and cider	9,998	11,710	5,510	6,354	4,488	5,356
Wines	6,602	8,461	4,736	6,811	1,866	1,650
Strong drinks (brandy, whisky, moonshine, kind of liqueur)	25,238	21,698	10,543	9,574	14,695	12,124
Vodka	24,085	18,711	13,227	11,919	10,858	6,792
Apple products	1,573	11,228	1,227	8,360	346	2,868
Unpacked raw wine	610	637	536	363	74	274
Others	269	986	97	1,189	172	-203
Total:	100,212	106,410	55,333	65,055	44,879	41,355

The authorised capital comprised as at 31 December 2004:

- private share capital of 50,827,209 Litass.

Nominal value of one share is 1 Litass.

On 6 January 2004 a statement on transfer - acceptance of the company's shares was signed between the state company the State Property Fund and UAB Invinus, and AB Alita was privatised. UAB Invinus acquired 83.77 per cent of the controlling shares of the company. The control of the company was transferred from the State to private investors.

AB Alita became a winner of the privatisation tender of the largest wine producer in Lithuania AB Anykščių Vynas, which was performed by the State Property Fund. On 8 July 2004, the state company State Property Fund, by a statement of transfer and acceptance of shares sold, transferred and AB Alita accepted to its ownership 35,793,407 ordinary registered shares of AB Anykščių Vynas with a nominal value of 1 Litas each, comprising 72.93% of the total shares of the company. AB Alita before the day of the conclusion of the statement had paid 25,610,000 Litas, i.e. the total purchase price of the mentioned shares sold. During the second half the year of 2004, the company additionally acquired 11,607,163 ordinary registered shares. As at 31 December 2004, the company owned 47,400,570 units or 96.58% of ordinary registered shares of AB Anykščių Vynas.

Extraordinary shareholders' meeting of AB „Invinus“ dated 10 November 2004 and extraordinary shareholders' meeting of AB Alita dated 11 November 2004 decided to reorganise AB Alita and AB Invinus by merger and approved their reorganisation terms. According to the decisions of the mentioned meetings and the terms of the reorganisation of AB Alita and AB Invinus, AB Alita, by acceptance - transfer statements, has accepted the total assets, rights and duties of AB Invinus which is under reorganisation. After the reorganisation AB Invinus has ceased its activities. After the reorganisation, the authorised capital of AB Alita comprises 50,827,209 ordinary registered shares with a nominal value of 1 Litas each. The major shareholders hold together 92.62% of the shares of the company. The ordinary registered shares of the company are traded on the Official List of the National Stock Exchange of Lithuania (NSEL). On the day of the reorganisation, the price of the share of the company was 1.35 Litas, and during a four months' period the price per share increased by 2.5 times.

During the accounting period the following taxes were calculated to be paid to the State Budget (tLitas):

	2004	2003
- excise duty	96,311.4	77,713.7
- value added tax	25,352.2	17,971.6
- profit tax	2,135.3	2,414.7
- real estate tax	139.8	141.9
- road tax	951.5	889.5
- packaging tax	570.6	-
- land rent tax	83.4	82.7
- environment pollution tax	14.1	17.4
- customs duty	-	28.5
- contribution to guarantee fund	14.9	18.1
- other taxes	19.9	47.7
Total taxes:	125,593.4	99,325.8
- social insurance contributions at 31 %	2,309.2	2,798.6
Total:	127,902.6	102,124.4

For a long time, AB Alita is known as the most computerised company in Lithuania producing alcohol. The company has implemented budgeting system and automatic accounting system Concorde XAL. In 2004, the accounting and business management

system MBS AXAPTA 3.0 has been started to be implemented which is more up to date and more progressive. In our opinion, the company meets the European requirements in the area of accounting computerisation.

The company when preparing accounting and financial statements follows the general accounting principles specified in the first business accounting standard.

Following the comparison principle, figures of the previous financial year (2003) in the balance sheet and profit and loss account of 2004 were adjusted according to the requirements of Business Accounting Standards.

In the balance sheet of 2004, the figures of the previous financial year were adjusted as follows:

deferred costs under Assets were transferred to Prepayments, an amount of 435,824 Litas;
accrued costs under Liabilities are attributed to Amounts Payable and Current Liabilities, an amount of 110,151 Litas.

Adjustment of ratios in the profit and loss account for 2003

Item	Amount in Litas	From account	To account
1. Income from other sales	809,963	505	520
2. Cost of other sales	657,160	605	620
3. Write off of doubtful debts	2,250,635	630	616
4. Provisions for doubtful debts	73,698	630	616
5. Adjustment of extraordinary losses, including:	3,659,285	640	616
-book value of fixed assets written off	105,770		
- provisions for fixed assets	2,717,857		
-provisions for stock	832,000		
-others	3,658		
6. Adjustments of extraordinary gain:			
VAT relief, booking of waste of current assets written off	130,708	540	520
Correction of errors of the previous year, including:	1,284,881	540	340
-set off of profit tax against income tax on dividends	1,151,548		
- costs related to the financial plan for 2002-2007	133,333		

As a result of the above corrections, the profit for 2003 is decreased by 1,284,881 Litas. The decrease relates to expensed financial plan preparation costs of 133,333 Litas and income tax expenses on dividends for 2001 paid to the State of 1,151,548 Litas, which had to be set off against the profit tax for 2002, however, set-off was previously recorded as extraordinary income for 2003.

In the profit and loss accounts for 2004 and 2003, set off was made of currency exchange gain against currency exchange loss, and only the difference has been shown.

Assets with the acquisition value of 500 Litas and more and useful life time not less than 1 year are attributed to fixed tangible assets.

Fixed tangible assets are stated at acquisition cost. Following Government Resolutions of the Republic of Lithuania, fixed tangible assets acquired before 31 December 1995 were revaluated four times. Thus, the fixed tangible assets are booked at indexed value in the financial statements and the assets acquired after 1995 - at acquisition value.

Fixed assets are depreciated and amortised on a straight line basis over their useful life time. Useful life time of assets is reviewed on a regular basis. Depreciation is not calculated for not used fixed tangible assets. Preserved assets are treated as non-used. If assets are not used temporary due to repairs, such assets are not attributed to non-used assets.

As at 31 December 2004, book value of non-used fixed tangible assets, including provisions made, amounted to 741.0 thousand Litas. Acquisition /revaluated cost of totally depreciated but still used fixed tangible assets amounts to 16 882.9 thousand Litas.

The company has insured fixed assets, the book value of which as at 31 December 2004 was 40 722 tLitas, against fire, force major and other damages.

Sales costs, general and administration costs are recognised, accounted for and presented in the financial statements in the same accounting period when they were incurred.

Activity results of the company could be evaluated by the relative ratios:

Items	2004	2003
Gross profitability ratio	0.45	0.39
Net profitability ratio	0.13	0.07
Gross liquidity ratio	1.45	2.58
Average return on assets	0.09	0.06
Total debt ratio	0.61	0.21
Equity ratio	0.66	0.82
Inventory ratio	2.09	2.28
Net profit per share	0.26	0.16

In 2004 the Company continued improvement of production and technological processes. High quality of production, modern and purposeful marketing, new technologies and up-to-date reorganised management of the company already meets the EU requirements.

As at 31 December 2004, AB Alita held 2 779 307 ordinary registered shares with a nominal value of 1 Litas each, the value amounted to 5 753 165 Litas, in AB Šiaulių Bankas, and 9 000 ordinary registered shares with a nominal value of 100 Litas each, the value amounted to 750 tLitas, in UAB Artrio-2. As at 31 Decembers 2004, shares of Šiaulių Bankas were evaluated at the market price, i.e. 2.07 Litas per share, and the increase in the value has been

calculated of 1 444 434 Litas. A 100 % provision for the shares of Artrio-2 has been made, as a bankruptcy case has been initiated to the company.

The major part of its production (over 90%) is sold by the company to six major clients. During the accounting year the settlements of the customers were guaranteed by advance payments or guarantee letters.

The company's trade debtors amount to 7,935.6 tLitas, and prepayments received comprise 4,063.4 tLitas.

In 2004, trade debtors related to the year 1997 amounting to 200 tLitas were expensed.

As at 31 December 2004, the company's long-term financial liabilities amounted to 71,641.1 tLitas. During the reorganisation, a long-term loan of 66,796.8 tLitas was taken over from AB Invinus. In 2004, the loans in the amount of 5,155 tLitas were repaid by the company.

In 2004, 922 agreements were signed with purchasers of the company's production as well as suppliers of raw and auxiliary materials, providers of advertising, market research, consulting and other services.

All signed agreements are initialled and co-ordinated with the bookkeeping department, planning and analysis division as well as division responsible for the agreement fulfilment.

In 2004, only one claim was presented by the company to the forwarder of the consignment because of breakage exceeding the rate during transporting. The claim was satisfied by the forwarder of the consignment, and the damage has been fully covered by transferring an amount of 11.95 Litas to our account.

A bankruptcy procedure initiated in 2003 to UAB Balanta is still in process. Our creditorial requirement amounts to 1,488.54 Litas. The liability occurred due to loss of a trade equipment.

By orders of the general director of the company, an amount of 135.90 Litas has been recovered from employees of the company, whose actions caused damage for the company. Due to violation of internal rules of the company or improper fulfilment of duties, disciplinary punishment was announced to 19 employees, including 13 employees for whom a decrease of the variable part of the salary of 100 per cent was applied.

Director general

V. Junevičius

2. Significant accounting policies

Statement of compliance

The annual accounts of AB Alita have been prepared in accordance with Lithuanian Business Accounting Standards (BAS).

Basis of preparation

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

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

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

Foreign currency transactions

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

Balance sheet

Intangible fixed assets

Intangible fixed assets are stated at cost price less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis over a period of 1-3 years.

Tangible fixed assets

To reflect the effect of hyperinflation, tangible fixed assets of the company have been revaluated/indexed 4 times: in 1991, 1992, 1994 and 1995 in accordance with the resolutions of the Government of Lithuania.

The effect of the revaluations performed could be summarised as follows:

tLitas	Historical book value
The first revaluation, 1991	339
The second revaluation, 1992	2,431
The third revaluation, 1994	21,065
The fourth revaluation, 1995	10,508
Cumulative effect of indexations	<u>34,343</u>

Items of property, plant and equipment are stated at purchase price, including indexation in accordance with resolutions of the Government of Lithuania in 1991, less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour cost and an appropriate proportion of production overheads.

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

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

Assets with the cost of less than Lit 500 and useful life less than 1 year are expensed in the year of acquisition.

Investments

Investments in associated companies and subsidiaries in the separate financial statements of the company are reported using the cost method.

Investments classified as being available-for-sale are stated at fair value, with any resultant gain or loss being recognised in the income statement. When fair value of the investment can not be measured reliably, the investment is valued at the purchase cost less impairment losses.

Investments classified as held-to-maturity are stated at amortised cost.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

The cost of the inventories is based on FIFO principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Work in progress is valued at direct materials costs.

The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the selling expenses. Provision is made for slow moving or obsolete inventories.

Amounts receivable

Trade and other receivable are stated at their cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at bank, including call deposits.

Impairment

The carrying amounts of the company's assets, other than inventories, are reviewed at each balance sheet date to determine, whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

Calculation of recoverable amount

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

Legal reserve

Following the legislation, annual allocation to the legal reserve should amount to at least 5% of the net profit until the reserve makes up 10% of the share capital. The reserve can not be distributed.

Dividends

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

Provisions

Provision is recognised in the balance when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Profit and loss account**Sales**

Revenue from sale of goods and rendering of services is recognised on accrual basis.

Revenue from sale of goods is included in the profit and loss account when the significant risks and rewards of ownership have been transferred to the client.

Cost of sales

Cost of sales comprises purchases made during the year as well as change for the year in inventories, depreciation and labour costs incurred in order to obtain the turnover for the year.

Operating expenses

Operating expenses comprise costs regarding sales personnel, advertising, administrative staff, management, office premises and office expenses etc. including depreciation and amortisation.

Other income and expenses

Other operating income and charges comprise items secondary in relation to the primary activities including a rental income in connection with letting of property.

Financial and investing income and expenses

Financial income and expenses comprise interest receivable and payable, realised and unrealised exchange gains and losses regarding debtors and creditors denominated in foreign currencies.

Dividends income is recognised when the shareholder's right to receive payment is established.

Extraordinary gains and losses

Extraordinary gains and losses comprise income and charges resulting from activities other than ordinary ones.

Tax on profit for the year

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income using applicable tax rate and calculated in accordance with the tax legislation.

No deferred tax is recognised in the financial statements of the company.

Cash flow statement

The cash flow statement shows the company's inflows and outflows of cash during the year as well as the financial position at year-end.

Cash flows from operating activities

Cash flows arising from operating activities are presented indirectly and are calculated as turnover less operating charges and adjusted for non-cash operating items, changes to the operating capital, financial and extraordinary items paid and corporation tax paid.

Cash flows from investing activities

Cash flows arising from investing activities include payments in connection with the acquisition and sale of fixed assets and investments.

Cash flows from financing activities

Cash flows arising from financing activities include payments to and from shareholders and raising of and repayments of mortgage loans and other long-term and short-term creditors not included under working capital.

3. Intangible non-current assets (Litas)

	Items	Develop- ment	Goodwill	Rights acquired	Software	Other intangible assets	Total
	Balance at the end of the previous financial year				58,084	28,393	86,477
a)	Intangible non-current assets at acquisition value						
	At the end of the previous financial year				596,383	110,033	706,416
	Financial year changes:						
	- acquisition of assets				333,366		333,366
	- cessions to other persons and written-off assets (-)						
	- transfers from one heading to another +/-(-)						
	At the end of the financial year				929,749	110,033	1,039,782
b)	Amortisation						
	At the end of the previous financial year				538,299	81,640	619,939
	Financial year changes:						
	- amortisation in financial year				21,334	17,225	38,559
	- written back (-)						
	- amortisation of cessions to other persons and written-off assets (-)						
	- transfers from one heading to another +/-(-)						
	At the end of the financial year				559,633	98,865	658,498
c)	Decrease in value						
	At the end of the previous financial year						
	Financial year changes:						
	- decrease in value in financial year						
	- written back (-)						
	- of cessions to other persons and written-off assets(-)						
	At the end of the financial year						
d)	Balance at the end of the financial year (a)-(b)-(c)				370,116	11,168	381,284

4. Tangible non-current assets (Litas)

Items	Land	Buildings	Plant	Vehicles	Tools and equipment	Other tangible fixed assets	New non current assets	Construction in progress and others	Total
Balance at the end of the previous financial year		28,138,631	2,694,088	1,235,289	23,238,084	2,425,370	442,050		58,173,512
a) Acquisition value									
At the end of the previous financial year		20,095,309	3,920,428	3,654,861	31,181,980	5,506,168	442,050		64,897,139
Financial year changes:									
- acquisition of assets	39,385			177,195	1,794,328	340,760	72,185	448,413	2,872,266
- cessions and written-off assets (-)	-11,448	-1,200,000		-6,157	-221,798	-58,732			-1,498,135
- transfers from one heading to another +/-(-)		323,014	84,199	41,200	1,166	87,684	-88,850	448,413	0
At the end of the financial year	27,937	19,218,323	4,004,627	3,867,099	32,852,019	5,875,880	425,385	0	66,271,270
b) Revaluation									
At the end of the previous financial year		22,199,421	527,911	483,899	20,170,546	1,926,264			45,308,041
Financial year changes:									
- increase (decrease) in value +/-(-)									
- of cessions to other persons and written-off assets (-)				-74,603	-505,711	-3,622			-583,936
- transfers from one heading to another +/-(-)									
At the end of the financial year		22,199,421	527,911	409,296	19,664,835	1,922,642			44,724,105
c) Depreciation									
At the end of the previous financial year		11,488,061	1,754,251	2,903,471	28,160,967	5,007,062			49,313,812
Financial year changes:									
- depreciation in financial year		680,728	293,465	389,352	3,519,191	809,938			5,692,674
- written back (-)									
- depreciation of cessions to other persons and written-off assets (-)		-202,500		-80,760	-643,899	-58,354			-985,513
- transfers from one heading to another +/-(-)									
At the end of the financial year		11,966,289	2,047,716	3,212,063	31,036,259	5,758,646			54,020,973
d) Decrease in value									
At the end of the previous financial year		2,668,038			49,818				2,717,856
Financial year changes:									
- decrease in value in the financial year									
- written back (-)									
- of cessions to other persons and written-off assets (-)									
- transfers from one heading to another +/-(-)									
At the end of the financial year		2,668,038			49,818				2,717,856
e) Balance at the end of the financial year (a)+(b)-(c)-(d)	27,937	26,783,417	2,484,822	1,064,332	21,430,777	2,039,876	425,385		54,256,546

5. Pledge of tangible non-current assets

Name of pledged asset	Book value (Litas)	End date of pledge
Buildings	27,487,300	14 06 2008
Equipment and tools	12,579,902	14 06 2008

6. Depreciation rates for tangible non-current assets

Groups of tangible non-current assets*	Average useful life time (in years)
Buildings and plants	8-84
Machinery and equipment	7-40
Transport vehicles	4-25
Tools and equipment	2-50
Other tangible non-current assets	2-25

* Assets may also be grouped on functional basis

7. Depreciated tangible non-current assets in use

Name of asset group	Acquisition cost (Litas)
Buildings	222,150
Vehicles	1,987,450
Tools and equipment	12,505,121
Other tangible non current assets	2,168,141
Total:	16,882,862

8. Inventories (Litas)

	Items	Raw materials and material	Finished goods	Production in process	Goods for resale	Total
a)	Acquisition value of inventories					
	At the end of the previous financial year	21,858,759	3,061,779	4,607,343	117,640	29,645,521
	At the end of the financial year	17,942,048	2,413,162	4,136,167	42,533	24,533,910
b)	Write-down to net realisable value (reversals of write-down)					
	At the end of the previous financial year	(832,000)				(832,000)
	At the end of the financial year	(797,900)				(797,900)
c)	Net realisable value at the end of the financial year (a) - (b)	17,144,148	2,413,162	4,136,167	42,533	23,736,010
	Differences in valuation if LIFO was used					
	Value of inventories pledged	17,144,148	2,413,162	4,136,167	42,533	23,736,010
	Inventories at third parties					

9. Subsidiary companies

Name of subsidiary company	Address	Controlled share (%)	Shareholders' equity (Litas)	Net profit (loss) (Litas)
AB Anykščių Vynas	Dariaus ir Girėno g., Anykščiai	96.58%	37,135,295	(3,765,224)

10. Associated companies

AB Alita has no associated companies.

11. Structure of the authorised capital

	Items	Number of shares	Amount (Litas)
	Structure of the share capital at the end of the financial year	50,827,209	50,827,209
1.	As to type of shares		
1.1.	Common shares	50,827,209	50,827,209
1.2.	Preferred shares		
1.3.	Employees' shares		
1.4.	Special shares		
1.5.	Other shares		
	TOTAL	50,827,209	50,827,209
2.	Capital owned by the state or municipalities		
	Shares owned by the company		
	Shares owned by subsidiaries		

12. Draft appropriation of profit

Items	Amount (Litas)
Retained earnings at the end of the previous financial year	11,126,906
Net result - profit (loss) - for the financial year	13,195,732
Change in the equity of AB Alita due to reorganisation	-35,006,599
Profit (loss) to be distributed at the end of the financial year	-10,683,961
Shareholders' contributions against losses	
Transfers from non-distributable reserve	11,199,162
Transfers from compulsory reserve	2,205,295
Profit to be distributed	2,720,496
Profit distribution:	2,033,089
– to legal reserves	
– to other reserves	
– dividends	2,033,089
– other	
Retained earnings at the end of the financial year	687,407

13. State of liabilities (Litas)

	Items	Amounts or part of amounts payable		
		During the financial year	After one year but not more than five years	After five years
	Specification of liabilities per type			
1.	Financial liabilities			
1.1.	Credit institutions	11,687,107	37,170,083	22,783,937
1.2.	Other financial liabilities			
2.	Trade creditors	5,006,172		
3.	Prepayments	4,063,406		
4.	Corporate tax liability	312,702		
5.	Other liabilities	11,580,792		
	TOTAL	32,650,179	37,170,083	22,783,937

14. Information about business segments (Litas)

Information about business segments is provided in the explanatory letter in the section Background Information (page 12).

15. Rights and commitments not disclosed in the Balance sheet (Litas)

The company has received a loan from AB Hansabankas amounting to 71,641 tLitas as at 31 December 2004. The loan interest is calculated as six months EUR LIBOR plus 1.85% margin. The loan is repayable in instalments by the end of 2011. For the security of the loan, the following assets are pledged:

- 47,400,570 shares of AB Anykščių Vynas owned by AB Alita;
- buildings, machinery and equipment with a book value of 40,067 tLitas as at 31 December (see note 5);
- stock balances (see note 8);
- all present and future cash inflows to AB Alita accounts at AB Hansabankas;
- rights to brand names of AB Alita products.

The company has issued a guarantee to AB Hansabankas for a loan of 7,941 tLitas taken by AB Anykščių Vynas.

16. Financial relations with management and other related parties (Litas)

	Items	Financial year	Previous financial year	Balance at the end of the financial year
A.	Amounts related to labour relations paid to:	910,951	618, 631	
1.	Management	910,951	618, 631	
2.	Other related parties			
B.	Loans issued by the company to:	10,820,000		10,820,000
1.	Management	10,820,000		10,820,000
2.	Other related parties			
C.	Loans received:			
1.	From management			
2.	From other related parties			
D.	Assets given free of charge to :			
1.	Management			
2.	Other related parties			
E.	Guarantees issued on behalf of the company to:	7,941,440		7,941,440
1.	Management			
2.	Other related parties	7,941,440		7,941,440
F.	Other significant amounts calculated during the year to:		21,779	
1.	Management		21,779	
2.	Other related parties			
G.	Other significant commitments from:			
1.	Management			
2.	Other related parties			
H.	Sales to:	33,781,172	48,806,441	
1.	Management	11,300		
2.	Other related parties	33,769,872	48,806,441	
	Average number of management during the year	5	5	

Sales to other related parties of 33,770 tLitas for 2004 and 48,806 tLitas for 2003 comprise the company's production sold to AB Anykščių Vynas and UAB Artrio - 2.

17. Results from financial and investing activities (Litas)

	Items	Financial year	Previous financial year
a)	INCOME FROM FINANCIAL AND INVESTING ACTIVITIES	1,997,230	497,430
	Specification of material amounts:		
	Income from interest	419,354	219,530
	Increase in value of shares in Šiaulių Bankas	1,444,434	
	Other income	133,442	277,900
b)	EXPENSES FROM FINANCIAL AND INVESTING ACTIVITIES	2,751,700	83,131
	Specification of material amounts:		
	Costs from interest	1,842,580	
	Intermediation and purchase of shares (taxes)	854,748	
	Other expenses	54,372	83,131
c)	RESULT FROM FINANCIAL AND INVESTING ACTIVITIES (a-b)	-754,470	414,299

18. Results from other activities (Litas)

	Items	Financial year	Previous financial year
a)	INCOME FROM OTHER ACTIVITIES	1,308,499	1,106,557
	Specification of material amounts:		
	Income from transfer of current assets and services	1,093,526	809,963
	Income from rent	135,689	165,885
	Income from transfer of non current assets	37,126	89,812
	Other income	42,158	40,897
b)	EXPENSES FROM OTHER ACTIVITIES	1,523,361	912,215
	Specification of material amounts:		
	Cost of current assets and services transferred	1,035,119	614,378
	Cost of the income from rent	190,593	255,055
	Loss from transfer of non current assets	297,649	42,782
c)	RESULT FROM OTHER ACTIVITIES (a-b)	-214,862	194,342

19. Exchange of goods and services (Litas)

The company has not entered into exchange of goods and services.

20. Extraordinary items (Litas)

The company has no extraordinary gain or loss.

21. Information about correction of errors (Litas)

Information about correction of errors is provided in the explanatory letter in the section Background Information (pages 14-15).