

**AB Alita**

Consolidated financial  
statements for the year  
2006

## **Contents**

Company details	1
Statement on the accounts	2
Independent auditor's report	3
Consolidated income statement	5
Consolidated balance sheet	6
Consolidated statement of changes in shareholders' equity	7
Consolidated cash flow statement	8
Notes to the consolidated financial statements	9
Annual report for the year ended 31 December 2006	29

## **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)  
Alina Miežiūnienė (Chief Accountant)

### **Auditor**

KPMG Baltics, UAB

### **Banks**

SEB Vilniaus Bankas  
AB Šiaulių Bankas  
AB Bankas Hansabankas  
AB DnB NORD Bankas

## Statement on the accounts

The Board of Directors and the Management have today discussed and authorized for issue the consolidated financial statements and the annual report.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements thus give a true and fair view.

We recommend the consolidated financial statements to be approved at the Annual General Meeting.

Vilnius, 16 April 2007

Board of Directors:

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Vytautas Junevičius  
(Chairman)

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Vilmantas Pečiūra

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Arvydas Jonas Stankevičius

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Darius Vėželis

# **Independent auditor's report**

## **To the shareholders of AB Alita**

We have audited the accompanying consolidated financial statements of AB Alita, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5–28.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AB Alita as at 31 December 2006 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## **Report on legal and other regulatory requirements**

Furthermore, we have read the Annual Report for the year ended 31 December 2006, set out on pages 29-34 of the Consolidated Financial Statements, and have not identified any material inconsistencies between the financial information included in the Annual Report and the consolidated financial statements for the year ended 31 December 2006.

Vilnius, 16 April 2007  
KPMG Baltics, UAB

Leif Rene Hansen  
Danish State Authorised  
Public Accountant

Domantas Dabulis  
Certified Auditor

**Consolidated statement of Income for the year ended 31 December 2006**

(LTL '000)

<u>Note</u>	<u>2006</u>	<u>2005</u>
18 NET SALES	143.463	136.494
18 Cost of sales	<u>(85.582)</u>	<u>(79.553)</u>
GROSS PROFIT	57.881	56.941
15 Selling and distribution expenses	(21.017)	(19.037)
16 General and administrative expenses	<u>(15.480)</u>	<u>(15.185)</u>
OPERATING PROFIT	21.384	22.719
17 Financial and other income (expenses), net	<u>(910)</u>	<u>(1.637)</u>
PROFIT BEFORE INCOME TAX	20.474	21.082
19 Income tax	<u>(2.756)</u>	<u>(2.839)</u>
NET PROFIT FOR THE YEAR	<u>17.718</u>	<u>18.243</u>
Attributable to:		
Equity holders of the parent	17.624	18.156
Minority interest	<u>94</u>	<u>87</u>
	<u>17.718</u>	<u>18.243</u>
12 Basic earnings per share (LTL)	0,35	0,36

The notes set out on pages 9-28 are an integral part of these consolidated financial statements.

General Director

Vytautas Junevičius

**Consolidated balance Sheet as of 31 December 2006**

(LTL '000)

<u>Note</u>		<u>2006</u>	<u>2005</u>
	<b>ASSETS</b>		
	<b>NON-CURRENT ASSETS</b>		
3	Intangible assets	359	551
3.1	Investment property	1.024	1.062
4	Property, plant and equipment	74.032	80.262
5	Available-for-sale investments	18.230	14.061
22	Loans	4.168	9.395
	Total non-current assets	<u>97.813</u>	<u>105.331</u>
	<b>CURRENT ASSETS</b>		
6	Inventories	28.581	25.912
7	Prepayments and deferred cost	860	1.008
8	Trade accounts receivable	34.363	23.028
9	Other accounts receivable	190	268
22	Other current assets	586	1.084
10	Cash and cash equivalents	3.676	23.672
	Total current assets	<u>68.256</u>	<u>74.972</u>
	<b>TOTAL ASSETS</b>	<u>166.069</u>	<u>180.303</u>
	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
	<b>SHAREHOLDERS' EQUITY</b>		
11	Share capital	50.827	50.827
	Compulsory reserve	5.083	5.083
	Revaluation reserve	10.073	7.929
	Retained earnings	24.965	14.965
	Total equity attributable to the equity holders of the parent	<u>90.948</u>	<u>78.804</u>
	Minority interest	1.962	1.574
	Total shareholders' equity	<u>92.910</u>	<u>80.378</u>
	<b>NON-CURRENT LIABILITIES</b>		
14	Long-term bank loans	3.396	41.356
19	Deferred income tax liability	1.742	2.154
	Total non-current liabilities	<u>5.138</u>	<u>43.510</u>
	<b>CURRENT LIABILITIES</b>		
14	Current portion of LT loans	24.457	26.250
	Short-term bank loans and leasing liabilities	11.485	-
21	Trade accounts payable	7.875	6.580
	Income tax payable	255	846
13	Accrued liabilities	23.949	22.739
	Total current liabilities	<u>68.021</u>	<u>56.415</u>
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>166.069</u>	<u>180.303</u>

The notes set out on pages 9-28 are an integral part of these consolidated financial statements.

General Director

Vytautas Junevičius



## Consolidated statement of Changes in Equity for the year ended 31 December 2006

(LTL '000)

Note	Share capital	Compulsory reserve	Revaluation reserve	Other reserves	Retained earnings (deficit)	Total equity	Minority interest	Total
<b>Balance as of</b>								
<b>31 December 2004</b>	50.827	7.288	1.701	11.199	(12.287)	58.728	1.195	59.923
Result of change in accounting policies					(2.274)	(2.274)	(44)	(2.318)
<b>Recalculated balance as of</b>								
<b>31 December 2004</b>	50.827	7.288	1.701	11.199	(14.561)	56.454	1.151	57.605
Transferred from compulsory reserve		(2.205)			2.205	-		-
Transferred from restricted reserve				(11.199)	11.199	-		-
Increase in value of investments for sale			7.627			7.627		7.627
Accounted deferred income tax liability			(1.399)			(1.399)		(1.399)
Dividends paid					(2.034)	(2.034)		(2.034)
Decrease of minority						-	336	336
Net profit for the year					18.156	18.156	87	18.243
<b>Balance as of</b>								
<b>31 December 2005</b>	50.827	5.083	7.929	-	14.965	78.804	1.574	80.378
Increase in value of investments for sale			2.522	-		2.522		2.522
Accounted deferred income tax liability			(378)	-		(378)		(378)
Dividends paid				-	(7.624)	(7.624)		(7.624)
Increase of minority						-	294	294
11 Net profit for the year	-	-	-	-	17.624	17.624	94	17.718
<b>Balance as of</b>								
<b>31 December 2006</b>	50.827	5.083	10.073	-	24.965	90.948	1.962	92.910

The notes set out on pages 9-28 are an integral part of these consolidated financial statements.

General Director

Vytautas Junevičius

## Consolidated statement of Cash Flows for the year ended 31 December 2006

(LTL '000)

	<u>2006</u>	<u>2005</u>
<b>Cash flow from (to) operating activities:</b>		
Net profit	17.718	18.243
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortisation	9.215	9.767
Change of impairment of trade accounts receivable	(11)	106
Change of impairment of property, plant and equipment	-	-
Write-off of property, plant and equipment	190	-
(Gain) / loss from fixed assets sale	(128)	(59)
Change of impairment of inventories	99	-
Write-off of inventories	54	176
Interest expenses	1.976	2.687
Interest income	(383)	(558)
(Gain) / loss from investments disposal	24	(67)
Income tax expense / (income)	2.756	2.989
Deferred income tax liability	(791)	(335)
Other	(94)	(87)
	<u>30.625</u>	<u>32.862</u>
Changes in current assets and current liabilities:		
Decrease in inventories	(2.822)	4.372
Decrease in trade accounts receivable	(11.324)	(13.304)
Increase (decrease) in liabilities of subsidiary	-	75
(Increase)/decrease in prepayments and deferred cost	148	505
Decrease in other accounts receivable	78	(69)
Increase in trade accounts payable and accrued liabilities	1.892	3.902
Income tax paid	(2.640)	(2.640)
Net cash provided by operating activities	<u>15.957</u>	<u>25.703</u>
<b>Cash flow from (to) investing activities:</b>		
Acquisition of property, plant and equipment	(2.798)	(2.033)
Acquisition of intangible fixed assets	(147)	(319)
Disposal (acquisition) of subsidiary's shares	270	372
Acquisition of investments for sale	(1.646)	(658)
Other expenses for acquisition of financial assets	-	-
Sale of property, plant and equipment	128	59
Interest received	383	558
Net cash (used in) investing activities	<u>(3.810)</u>	<u>(2.021)</u>
<b>Cash flow from (to) financing activities:</b>		
Loans issued for employees	(67)	(883)
Repayment of loans to employees	5.792	1.297
Loans received	15.179	3.465
(Repayment) of loans	(43.447)	(13.767)
Interest (paid)	(1.976)	(2.687)
Dividends (paid)	(7.624)	(2.034)
Net cash (used in) financing activities	<u>(32.143)</u>	<u>(14.609)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(19.996)</b>	<b>9.073</b>
<b>Cash and cash equivalents in beginning of the year</b>	<b>23.672</b>	<b>14.599</b>
<b>Cash and cash equivalents at end of the year</b>	<b>3.676</b>	<b>23.672</b>

The notes set out on pages 9-28 are an integral part of these consolidated financial statements.

## AB ALITA

Notes to the consolidated financial statements  
for the year ended 31 December 2006  
(LTL '000 unless otherwise stated)

### 1 Reporting entity

AB Alita was established in 1963 and was re-registered as a state enterprise in 1990. In 1995 AB Alita was re-organised to a joint stock company.

Registered address of AB Alita is Miškininkų 17, Alytus, Lithuania.

On 8 July 2004 a sales agreement of controlling shareholding comprising 72.93 percent of AB Anykščių Vynas was signed between the State Property Fund and AB Alita. 35.793.407 ordinary registered shares of AB Anykščių Vynas were acquired for 25.610 thousand Lit. During the second quarter of 2004 AB Alita additionally acquired 11.607.163 ordinary registered shares. During 2005 AB Alita disposed of 445.862 ordinary registered shares of 373 thousand Lit. AB Alita held 46.954.708 ordinary registered shares comprising 95.67 percent with a nominal value of 1 Lit each as at 31 December 2005. During the year 2006 the Company disposed of 377.138 shares; at the end of the year AB Alita held 46.577.570 shares or 94.90 % of ordinary registered shares with a nominal value of 1 Lit each.

The financial statements of AB Alita and AB Anykščių Vynas (hereinafter „the Group“) are consolidated from 1 July 2004.

The Group produces alcohol beverages, including sparkling wines, alcohol mixes, cider, wines, hard liqueurs, as well as concentrated fruit juice.

On 6 January 2004 an agreement on sale of AB Alita shares was signed between the State Property Fund and UAB Invinus. UAB Invinus acquired controlling 83.77 percent shareholding of the Company.

On 10 November 2004 extraordinary shareholders' meeting of AB Invinus and on 11 November 2004 extraordinary shareholders' meeting of AB Alita took place during which a decision to merge AB Invinus to AB Alita and approve the reorganisation terms was made. AB Alita share capital decreased as a result of the reorganisation. Shareholders of AB Alita as at 31 December 2006 were as follows:

	Nominal value, Lit	Percent
Private share capital	50.827.209	100

The nominal value of one share is LTL 1. All shares are authorised, issued and fully paid registered ordinary shares. The Company's shares are listed in the current list of Vilnius Stock Exchange.

### 2 Summary of significant accounting policies

#### Statement of compliance

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

The financial statements were authorised for issue by the Board of the Company. The Company's shareholders have a right to amend the financial statements after issue.

#### Basis of preparation

The financial statements are presented in Lit, being the functional currency of the Group and prepared on the historical cost basis, except for the property plant and equipment, which are presented at deemed cost.

The preparation of the financial statements in conformity with IFRSs, as adopted by the European Union, requires management to make judgments, estimates and assumptions that affect 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs, as adopted by the European Union, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.1.

The accounting policies of the Group, as set out below, have been consistently applied, except for the changes in the accounting policies for multiple usage tare, which have been adjusted retrospectively in the financial statements for the year ended 31 December 2006 (refer to note 2.2).

## 2 Summary of significant accounting policies (cont'd)

### Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

#### (iii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

#### (iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Foreign currency

#### Foreign currency transactions

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

### Financial instruments

The Group does not use derivative financial instruments as at 31 December 2006.

#### Other financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Receivables are non-derivative financial assets and are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to the occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortized cost. Short-term liabilities are not discounted.

## 2 Summary of significant accounting policies (cont'd)

### Property, plant and equipment

#### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that have been indexed in accordance with Lithuanian legislation prior to 1 January 2004, the date of transition to IFRSs, are measured on the basis of deemed cost, being the indexed amount at the date of the indexation less indexed accumulated depreciation and impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- Buildings and constructions                      8-80            years
- Plant and machinery                                2-50            years
- Motor vehicles, furniture and fixtures        4-25            years
- IT equipment    4-5            years

Depreciation methods, residual values and useful lives are reassessed annually.

#### Intangible assets

Intangible assets, comprising computer software and other licenses that are acquired by the Group, are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the income statement on a straight-line basis. The Group's intangible assets are amortized over 1-3 years.

#### **Leased assets**

Leases, in terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

## 2 Summary of significant accounting policies (cont'd)

### Inventories

Inventories, including work in process, are valued at the lower of cost or net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

The cost of inventories is determined based on FIFO (First-In, First-Out) principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

The Group accounts for bottles as current assets in inventory, since they are not expected to be reused following the initial delivery. Bottles are booked to the cost of finished goods when used in production.

### Change in accounting policy

The Group books multiple usage tare, which comprise plastic boxes, pallets and etc. for placing the bottles of alcohol beverages, to the operating expenses immediately after it is taken for use. In Group's financial statements for the periods beginning before 1 January 2006 the Group recorded multiple usage tare under inventories.

The accounting policy has been applied retrospectively and comparatives have been adjusted. The change in accounting policy and the impact on the financial statements are disclosed in note 2.2.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

### Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, 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.

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

### Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### Reversals of impairment

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

## 2 Summary of significant accounting policies (cont'd)

### Dividends

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

### Liabilities

Liabilities are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Short-term liabilities are not discounted.

### Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### Revenue

#### Sales of goods

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

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

#### Services rendered, assets disposed

Revenue from the services rendered is recognized in the income statement as the services are rendered. The revenue recognized is net of discounts provided.

Rental income is recognized in the income statement on a straight-line basis over the term of the lease.

Revenue from disposal of assets is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of assets disposed also continuing management involvement with the assets.

### Expenses

#### Operating expenses

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

#### Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

#### Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## 2 Summary of significant accounting policies (cont'd)

### Expenses (cont'd)

#### Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses.

Interest income is recognized in the income statement as accrued, using the effective interest method. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

#### **Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to the items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to the investments in the subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

#### **Earnings per share**

The Group presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. During reporting periods there were no any dilutive potential ordinary shares issued by the Group.



## 2 Summary of significant accounting policies (cont'd)

### Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital. The standards are not expected to have any impact on the financial statements.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has not yet completed its analysis of the impact of the new Standard.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. IFRIC 8 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). IFRIC 10 is not relevant to the Group's operations as the Group has not any investments in equity instruments.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations.

## 2.1 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

#### Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with defaults on assets in the Group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 2.2 Corrections of previous periods

The Group has adjusted the accounting policy for multiple usage tare. The adjustments made were related to previous accounting periods, therefore the Group has adjusted retained earnings as at 31 December 2004 and as at 31 December 2005. The related impact of these corrections of accounting policy on the result, shareholders' equity and total assets as at 31 December 2005 can be specified as follows:

tLitās	Before adjustment	Impact of adjustment	After adjustment
Shareholders equity as at 31 December 2005	82.688	(2.310)	80.378
Result for the year 2005	18.235	8	18.243
<b>Total assets as at 31 December 2005</b>	<b>183.021</b>	<b>(2.718)</b>	<b>180.303</b>

Due to the correction above, the value of stock decreased by 2.718 tLTL and the deferred tax asset increased by 408 tLTL resulting in the net decrease of shareholders equity by 2.310 tLTL.

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**3. Intangible assets**

	Software	Other intangible assets	Total
<b>COST</b>			
Balance as of 1 January 2005	930	457	1.387
Additions	195	127	322
Disposals and write-offs	(410)		(410)
Balance as of 31 December 2005	<u>715</u>	<u>584</u>	<u>1.299</u>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>			
Balance as of 1 January 2005	560	270	830
Depreciation for the year	195	133	328
Disposals and write-offs	(410)		(410)
Balance as of 31 December 2005	<u>345</u>	<u>403</u>	<u>748</u>
<b>BOOK VALUE as of 31 December 2005</b>	<u>370</u>	<u>181</u>	<u>551</u>
<b>COST</b>			
Balance as of 1 January 2006	715	584	1.299
Additions	33	113	146
Disposals and write offs		(23)	(23)
Balance as of 31 December 2006	<u>748</u>	<u>674</u>	<u>1.422</u>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT:</b>			
Balance as of 1 January 2006	345	403	748
Amortization for the year	211	128	339
Disposals and write offs		(24)	(24)
Impairment during the year			-
Balance as of 31 December 2006	<u>556</u>	<u>507</u>	<u>1.063</u>
<b>BOOK VALUE as of 31 December 2006</b>	<u>192</u>	<u>167</u>	<u>359</u>

**3.1 Investment property**

	lš viso
<b>COST</b>	
Balance as of 1 January 2005	3.703
Additions	
Disposals and write offs	
Balance as of 31 December 2005	<u>3.703</u>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>	
Balance as of 1 January 2005	2.602
Depreciation for the year	39
Disposals and write offs	
Balance as of 31 December 2005	<u>2.641</u>
<b>BOOK VALUE as of 31 December 2005</b>	<u>1.062</u>
<b>COST</b>	
Balance as of 1 January 2006	3.703
Additions	-
Disposals and write offs	-
Balance as of 31 December 2006	<u>3.703</u>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>	
Balance as of 1 January 2006	2.641
Depreciation for the year	38
Disposals and write offs	-
Balance as of 31 December 2006	<u>2.679</u>
<b>BOOK VALUE as of 31 December 2006</b>	<u>1.024</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

The investment property comprises café and hotel in Palanga. The café is located in a 2 storey building with a cellar and the area of the café is 757,36 m<sup>2</sup>. The area of the hotel is 226,06 m<sup>2</sup>.

The rental income of the investment properties amounted to LTL 61 thousand in 2006 (LTL 94 thousand in 2005).

The depreciation charge for the year ended 31 December 2006 amounts to LTL 38 thousand (LTL 39 thousand in 2005) and has been included into general and administrative expenses.

The Group had no an independent valuation of the investment properties performed. By the decision of the management, an impairment of café buildings in Palanga was recorded as at 31 December 2003 (it amounts to LTL 2,037 thousand or 55 per cent of the acquisition value of the asset). As to the management of the Group, the booked value of the investment property is in compliance with the fair value of the property.

Public services are paid by leaseholder. Repair works carried out in 2006 amounted to LTL 2 thousand.

There were no restrictions on disposal of investment properties or the remittance of income and proceeds of disposals as of 31 December 2006.

No material contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancement existed at the year-end.

#### 4. Property, plant and equipment

	Land	Buildings	Vehicles and equipment	Other tangible fixed assets	Construction in progress and prepayments	Total
<b>COST</b>						
Balance as of 1 January 2005		69.900	111.810	12.037	1.868	195.643
Additions	28		776	454	810	2.040
Disposals and write offs		(1.473)	(1.750)	(485)		(3.708)
Transfers between captions		2.997	(6.683)	4.308	(622)	-
Balance as of 31 December 2005	28	71.424	104.153	16.314	2.056	193.975
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>						
Balance as of 1 January 2005		22.615	75.480	8.266	1.650	108.011
Depreciation for the year		1.560	5.674	2.169		9.403
Reversal of impairment		(898)	(37)	(763)		(1.698)
Disposals and write offs		(41)	(1.597)	(365)		(2.003)
Transfers between captions		1.348	(4.581)	3.231	2	-
Balance as of 31 December 2005		24.584	74.939	12.538	1.652	113.713
<b>BOOK VALUE as of 31 December 2005</b>	<b>28</b>	<b>46.840</b>	<b>29.214</b>	<b>3.776</b>	<b>404</b>	<b>80.262</b>
<b>COST</b>						
Balance as of 1 January 2006	28	71.424	104.153	16.314	2.056	193.975
Additions	-	-	1.535	589	674	2.798
Disposals and write offs	-	(236)	(2.247)	(531)	(269)	(3.283)
Transfers between captions	-	462	867	(458)	(871)	-
Balance as of 31 December 2006	28	71.650	104.308	15.914	1.590	193.490
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>						
Balance as of 1 January 2006	-	24.584	74.939	12.538	1.652	113.713
Depreciation for the year	-	1.586	6.045	1.207	-	8.838
Disposals and write offs	-	(182)	(1.976)	(474)	-	(2.632)
Transfers between captions	-	-	-	-	-	-
Impairment change for the year	-	(41)	(137)	(14)	(269)	(461)
Balance as of 31 December 2006	-	25.947	78.871	13.257	1.383	119.458
<b>BOOK VALUE as of 31 December 2006</b>	<b>28</b>	<b>45.703</b>	<b>25.437</b>	<b>2.657</b>	<b>207</b>	<b>74.032</b>

**Notes to the consolidated financial statements****for the year ended 31 December 2006**

(LTL '000 unless otherwise stated)

No borrowing costs were capitalised during 2006 and 2005 since no assets qualified for the borrowing costs capitalisation criteria.

The Group has signed some contracts in 2006, according to which, the building of LTL 200 thousand will be build in 2007 and a vehicle will be bought for LTL 148 thousand. At the end of 2006, the advance of LTL 205 thousand was paid.

Property, plant and equipment with the book value of LTL 57,513 thousand as of 31 December 2006 (LTL 60,948 thousand as of 31 December 2005) is collateralised for credit lines (Note 14).

The Group's property, plant and equipment with the net book value of LTL 57,997 thousand as of 31 December 2006 are insured against natural calamities, fire, and other damages.

Depreciation

The depreciation charge for the year ended 31 December 2006 amounts to LTL 8,838 thousand (LTL 9,403 thousand in 2005). An amount of LTL 842 thousand (LTL 1,113 thousand in 2005) has been included into selling and distribution expenses, LTL 1,234 thousand (LTL 1,353 thousand in 2005) has been included into general and administrative expenses and the rest of the amount is split between cost of sales in the statement of income and finished goods in the balance sheet.

Impairment change

In 2006 the reversed value impairment consisted of: LTL 269 thousand related to the sold part of the boiler-house under construction, LTL 50 thousand related to the equipment and vehicles sold and LTL 96 thousand from other not used equipment and tools for which the value impairment was booked in the previous year.

**5. Non-current financial asset****Available-for-sale investments**

Available-for-sale investments consist of the following:

	2005	2004
AB Šiaulių Bankas shares	6.379	4.732
UAB Artrio-2 shares	-	750
Other securities	1	2
Total	<u>6.380</u>	<u>5.484</u>
Impairment in the beginning of the year	(751)	-
Available-for-sale investments written-off	750	-
Additional impairment		(751)
Impairment at the end of the year	<u>(1)</u>	<u>(751)</u>
Increase in value in the beginning of the year	9.328	1.701
Increase in value during the year	<u>2.523</u>	<u>7.627</u>
Increase in value at the end of the year	<u>11.851</u>	<u>9.328</u>
Total	<u>18.230</u>	<u>14.061</u>

On 31 December 2005 AB Alita held 9,000 ordinary registered shares of UAB Artrio-2, each with nominal value of LTL 100 per share. UAB Artrio-2 was engaged in the wholesale distribution of alcohol and non-alcohol beverages. The total acquisition value of the shares is LTL 750 thousand. In November 2004 bankruptcy procedure was initiated for UAB Artrio - 2. Share impairment of the total amount of 750 thousand Lit was booked as at 31 December 2004. In 2006 UAB Artrio-2 was declared bankrupt. Due to this, the management decided to write off the shares.

In 2006 due to increase of the share capital of AB Šiaulių Bankas, AB Alita received 386,637 free of charge ordinary registered shares and acquired 748,899 ordinary registered shares of 1,648 thousand Lit. On 31 December 2006 AB Alita held 4,650,418 ordinary registered shares with a nominal value of 1 Lit each. Increase in value of AB Šiaulių Bankas shares comprising 2,523 thousand Lit was registered in the Company's accounting as at 31 December 2006. The decision to increase the value was made based on the market value of the share which comprised 3,92 Lit per share. Increase in value of AB Šiaulių Bankas shares is booked in equity (see note 11).

Increase in value of AB Šiaulių Bankas shares are booked in equity (see note 11).

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**6. Inventories**

Inventories consist of:

	2006	2005
Raw materials	1.870	5.040
Packing materials	6.021	5.969
Auxiliary materials and supplies	1.180	1.286
Work-in-process	12.462	5.535
Finished goods:		
- alcoholic beverages	4.924	4.073
- apple products	4.629	6.425
Goods for resale	69	75
	<u>31.155</u>	<u>28.403</u>
Impairment of inventories in the beginning of the year	(2.491)	(2.743)
Reversal of impairment	16	252
Impairment during the year	(99)	-
	<u>(2.574)</u>	<u>(2.491)</u>
Impairment of inventories at the end of the year	(2.574)	(2.491)
Total	<u><u>28.581</u></u>	<u><u>25.912</u></u>

Impairment of inventories is booked for:

	2006	2005
Work-in-process	390	390
Plastic crates	1968	1968
Other auxiliary materials and supplies	216	133
Total	<u><u>2.574</u></u>	<u><u>2.491</u></u>

The Group has insured inventories amounting to LTL 32,000 thousand against natural calamities, fire, and other damages and inventories are pledged for the loan from AB Bankas Hansabankas (see note 14).

**7. Prepayments and deferred cost**

Prepayments and deferred cost consist of:

	2006	2005
Prepayments to local suppliers	269	284
Prepayments to foreign suppliers	203	143
Deferred cost	388	581
Total	<u><u>860</u></u>	<u><u>1.008</u></u>

**8. Trade accounts receivable**

Trade accounts receivable consist of:

	2006	2005
Trade accounts receivable	36.200	24.876
Impairment in the beginning of the year	(1.848)	(1.743)
Doubtful accounts receivable recovered	12	9
Additional impairment during the year	(1)	(114)
	<u>(1.837)</u>	<u>(1.848)</u>
Impairment at the end of the year	(1.837)	(1.848)
Total	<u><u>34.363</u></u>	<u><u>23.028</u></u>

Receivable for heating supplied is the receivable from UAB Anykščių Šiluma for heating that AB Anykščių Vynas supplied until 30 June 1999. As at 12 March 2001 the Panevėžys county court rejected the claim from UAB Anykščių Šiluma and adjudged to pay the debt to AB Anykščių Vynas. During 2006 UAB Anykščių Šiluma paid 200 tLitas (2005: 100 tLitas). Due to slow payment there is a risk that UAB Anykščių Šiluma will not have sufficient working capital to pay to AB Anykščių Vynas. In addition, non-current assets of UAB Anykščių Šiluma are arrested due to unpaid liabilities to banks. It is uncertain if UAB Anykščių Šiluma will be able to pay all the debt to AB Anykščių Vynas. Therefore, a provision for uncollectibility of 744 tLitas was recorded as at 31 December 2004.

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**9. Other accounts receivable**

Other accounts receivable consist of:

	2006	2005
Other accounts receivable	320	398
Impairment in the beginning of the year	(130)	(130)
Doubtful accounts receivable written-off	-	-
Additions during the year	-	-
Impairment at the end of the year	(130)	(130)
Total	<u>190</u>	<u>268</u>

**10. Cash and cash equivalents**

Cash and cash equivalents consist of:

	2006	2005
Cash in banks	3.648	13.037
Term deposits	-	10.622
Cash on hand	28	13
Total	<u>3.676</u>	<u>23.672</u>

**11. Shareholders' equity**

Share capital

The share capital comprises 50,827,209 ordinary shares with a nominal value of 1 Litas each and the total share capital of 50,827,209 Litas, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to receive dividends as declared from time to time and to capital repayment in case and to a share of residual assets. One ordinary share gives a right to one vote at the shareholders' meeting.

Legal reserve

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the retained earnings available for distribution are required until the legal reserve and the share premium reach 10% of the authorized capital.

Retained earnings

Due to the change in the accounting policy for the circulating tare acquired earlier, the Group adjusted restricted profit and loss accounts of the previous periods. Shareholders equity decreased by LTL 2,310 thousand including: acquisition cost of the circulating tare written off of LTL 2,718 thousand less deferred income tax asset of LTL 408 thousand.

Revaluation reserve

	2006	2005
Increase in value of AB Šiaulių Bankas shares	11.851	9.328
Deferred income tax to equity	(1.778)	(1.399)
Total	<u>10.073</u>	<u>7.929</u>

Profit distribution

The Board of the Group will propose for the shareholders to pay 8,132 thousand Litas dividends (7,624 thousand Litas dividends were paid for 2005). The proposal shall be approved by the General Shareholders' Meeting.

**12. Basic earnings per share**

Basic earnings per share are calculated as follows:

	2006	2005
Net profit, attributable to the shareholders	17.624	18.156
Number of shares (thousands)	50.827	50.827
Earnings per share (LTL)	<u>0,35</u>	<u>0,36</u>

AB Alita has no dilutive potential shares or convertibles. The diluted earnings per share are the same as the basic earnings per share.

**Notes to the consolidated financial statements**  
**for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**13. Accrued liabilities**

Accrued liabilities are listed below:

	<u>2006</u>	<u>2005</u>
Excise duty	12.184	12.400
Value added tax (VAT)	5.519	5.532
Advances received	2.164	2.527
Salaries	491	465
Accrued social security tax	372	338
Withholding income tax	121	149
Vacation pay	1.003	719
Other accrued liabilities	2.095	609
Total	<u>23.949</u>	<u>22.739</u>

Lithuania has an excise tax imposed on alcohol production. The excise tax is calculated for denatured alcohol and alcoholic beverages at a rate of LTL 3,200 for a hectolitre (HLT) of pure ethanol. The excise tax for wines depends on the wine category, and is calculated in LTL for a hectolitre. Excise tax rates are provided in the table below:

<u>Beverage</u>	<u>Alcohol content by volume</u>	<u>Excise tax rates (LTL for hectolitre)</u>
Sparkling wine	11%	150 Lt/HLT
Sparkling wine drink	7-8%	40 Lt/HLT
Sparkling drink	9,50%	150 Lt/HLT
Cocktails	5-6 %	3200 Lt/100%/HLT
Cider	6%	40 Lt/HLT
Hard liqueurs	37.5-50 %	3200 Lt/100%/HLT
Fortified wine	21%	230 Lt/HLT
Wine	10,50%	150 Lt/HLT
Fruit wine	18-19 %	230 Lt/HLT

11

**14. Long-term and short-term bank loans and leasing liabilities**

	<u>2006 m.</u>	<u>2005 m.</u>
Long-term loan payable by AB Anykščių Vynas		1.657
Long-term loan payable by AB Alita	3.396	39.699
Total long-term liabilities	<u>3.396</u>	<u>41.356</u>
Current portion of long-term loan payable by AB Anykščių Vynas	1.657	5.939
Current portion of long-term loan payable by AB Alita	22.800	20.267
Credit line payable by AB Alita	10.000	
Short-term loan payable by AB Anykščių Vynas	1.485	
Leasing		44
Total short-term liabilities	<u>35.942</u>	<u>26.250</u>

AB Alita has a loan from AB Bankas Hansabankas, which is scheduled to be fully repaid until 31 May 2008. Average annual variable interest rate in 2006 was 4,05 per cent.

AB Anykščių Vynas has a loan from AB Bankas Hansabankas, which is scheduled to be fully repaid until 30 August 2007. Average annual variable interest rate in 2006 was 4%.

The average variable interest rate of credit line used by AB Alita was 3,93 per cent for 2006.

For the long-term loan and the credit line received the Group has pledged real estate with a book value of 43,453 thousand Litass as at 31 December 2006, equipment with a book value of 14,060 thousand Litass as at 31 December 2006, inventories of 30,000 Litass, all cash flows to AB Bankas Hansabankas, 46,577,570 ordinary registered shares of AB Anykščių Vynas, trade marks, AB Alita shares held by majority shareholders, which comprise not less than 90 per cent of all Company's shares.

Projected interest expenses:

For 2007	788
For 2008	53
Total	<u>841</u>



**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**15. Selling and distribution expenses**

Selling and distribution expenses consist of:

	<u>2006</u>	<u>2005</u>
Advertising	15.246	12.832
Warehousing	1.783	1.987
Sales and marketing departments' expenses	1.992	2.477
Transportation and logistics	1.539	1.709
Other	457	32
Total	<u>21.017</u>	<u>19.037</u>

**16. General and administrative expenses**

General and administrative expenses consist of:

	<u>2006</u>	<u>2005</u>
Salaries, wages and social security	4.469	4.738
Tax expenses (other than income tax)	2.045	1.196
Maintenance and repairs	2.080	1.212
Depreciation and amortisation	1.635	1.678
Redundancy compensations	303	1.442
Other employee related cost	445	234
Write-off of inventories	54	176
Reversed impairment of property, plant and equipment	-	(195)
Professional services	228	257
Insurance expenses	201	202
Bank fees	73	46
Change in impairment of trade and other accounts receivable, deferred cost and prepayments	2	114
Charity	1.183	1.115
Change in impairment for obsolete and slow moving inventories	99	-
Other	2.663	2.970
Total	<u>15.480</u>	<u>15.185</u>

The Group employed 574 employees as of 31 December 2006 (598 employees as of 31 December 2005). During 2006 the Group's management was paid LTL 1,217 thousand salaries (LTL 1,354 thousand in 2005) and LTL 6,387 thousand dividends (LTL 1,883 thousand in 2005).

**17. Financial and other (expenses), net**

Financial and other income (expenses) consist of:

	<u>2006</u>	<u>2005</u>
Interest income	323	558
Other financial income	234	132
Other income	1.744	926
Interest expenses on loans	(1.976)	(2.687)
Currency exchange gain (loss), net	(7)	(13)
Other financial expenses	(56)	(4)
Other expenses	(1.172)	(549)
Total	<u>(910)</u>	<u>(1.637)</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**18. Information according to business and geographic segments**

Segment information for the year ended 31 December 2006 is presented below:

	Sparkling wine	Wines	Hard liqueurs	Apple products	Unallocated	Total
Net sales						
by segment	59.604	11.067	52.029	16.075	4.688	143.463
Cost of sales	(30.787)	(8.478)	(26.839)	(9.365)	(3.616)	(79.085)
Depreciation and amortisation	(2.244)	(1.057)	(1.960)	(1.236)	-	(6.497)
Gross profit	26.573	1.532	23.230	5.474	1.072	57.881
Operating expenses	-	-	-	-	(33.779)	(33.779)
Depreciation and amortisation	-	-	-	-	(2.718)	(2.718)
Operating result	26.573	1.532	23.230	5.474	(35.425)	21.384
Financial and other income (expenses), net	-	-	-	-	(910)	(910)
Income tax income (expenses)	-	-	-	-	(2.756)	(2.756)
<b>Net result for the year before minority interest</b>	<b>26.573</b>	<b>1.532</b>	<b>23.230</b>	<b>5.474</b>	<b>(39.091)</b>	<b>17.718</b>
Minority interest	-	-	-	-	(94)	(94)
<b>Net result for the year</b>	<b>26.573</b>	<b>1.532</b>	<b>23.230</b>	<b>5.474</b>	<b>(39.185)</b>	<b>17.624</b>
<i>Segment assets</i>						
Non-current assets	13.944	10.391	15.913	6.846	50.719	97.813
Inventories	7.007	3.159	9.656	12.795	(4.036)	28.581
Other current assets	97	159	-	-	39.419	39.675
<b>Total segments assets</b>	<b>21.048</b>	<b>13.709</b>	<b>25.569</b>	<b>19.641</b>	<b>86.102</b>	<b>166.069</b>
<i>Segment liabilities</i>						
Trade accounts payable	1.621	847	2.047	15	3.345	7.875
Other liabilities	-	-	-	962	64.322	65.284
<b>Total segment liabilities</b>	<b>1.621</b>	<b>847</b>	<b>2.047</b>	<b>977</b>	<b>67.667</b>	<b>73.159</b>
Acquisitions of non-current assets	750	146	296	331	2.798	4.321

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

**18. Information according to business and geographic segments**

Segment information for the year ended 31 December 2005 is presented below:

	Sparkling wine	Wines	Hard liqueurs	Apple products	Unallocated	Total
Net sales						
by segment	49.894	11.031	54.798	18.962	1.809	136.494
Cost of sales	(28.050)	(8.445)	(26.491)	(8.735)	(866)	(72.587)
Depreciation and amortisation	(2.025)	(1.038)	(2.501)	(1.402)	-	(6.966)
Gross profit	19.819	1.548	25.806	8.825	943	56.941
Operating expenses	-	-	-	-	(31.418)	(31.418)
Depreciation and amortisation	-	-	-	-	(2.804)	(2.804)
Operating result	19.819	1.548	25.806	8.825	(33.279)	22.719
Financial and other income (expenses), net	-	-	-	-	(1.637)	(1.637)
Income tax income (expenses)	-	-	-	-	(2.839)	(2.839)
<b>Net result for the year</b>	<b>19.819</b>	<b>1.548</b>	<b>25.806</b>	<b>8.825</b>	<b>(37.755)</b>	<b>18.243</b>
Minority interest	-	-	-	-	(87)	(87)
<b>Net result for the year</b>	<b>19.819</b>	<b>1.548</b>	<b>25.806</b>	<b>8.825</b>	<b>(37.842)</b>	<b>18.156</b>
<i>Segment assets</i>						
Non-current assets	11.421	9.453	20.896	7.255	56.306	105.331
Inventories	9.264	3.891	6.059	6.682	16	25.912
Other current assets	-	-	-	329	48.731	49.060
<b>Total segments assets</b>	<b>20.685</b>	<b>13.344</b>	<b>26.955</b>	<b>14.266</b>	<b>105.053</b>	<b>180.303</b>
<i>Segment liabilities</i>						
Trade accounts payable	820	427	1.144	19	4.170	6.580
Other liabilities	-	-	-	-	93.345	93.345
<b>Total segment liabilities</b>	<b>820</b>	<b>427</b>	<b>1.144</b>	<b>19</b>	<b>97.515</b>	<b>99.925</b>
Acquisitions of non-current assets	23	258	609	43	1.705	2.638
<b>Geographic segments</b>					2006	2005
Revenue from domestic market customers					123.194	113.528
Revenue from foreign customers					20.269	22.966
					<b>143.463</b>	<b>136.494</b>

All the Group's assets are located in Lithuania.

**19. Deferred income tax**

	2006 m.	2005 m.
Current tax	3.546	2.909
Correction of previous year profit tax		266
Change in deferred tax	(790)	(336)
<b>Total income tax expense</b>	<b>2.756</b>	<b>2.839</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

The reconciliation of effective tax rate is as follows:

	2006		2005	
Profit before tax		20.474		21.082
Income tax using standard tax rate	19,0%	3.890	15,0%	3.162
Non-taxable income	-0,2%	-34	0,0%	-5
Non-deductible expenses	1,9%	385	1,9%	399
Charity and sponsorship (deductible twice)	-1,0%	-195	-0,8%	-165
Recognition of previously unrecognized tax losses	-5,1%	-1.048	-2,2%	-470
Recognition of previously unrecognized temporary differences	-0,2%	-42	-0,6%	-130
Impact of change of tax rates on temporary differences	-1,0%	-200	0,0%	0
Adjustment to reclassify impact of recognised temporary differences to equity	0,0%	0	-1,0%	-217
Under / (over) provided in previous year	0,0%	0	1,3%	265
<b>Total</b>	<b>13,5%</b>	<b>2.756</b>	<b>13,5%</b>	<b>2.839</b>

The calculation of deferred tax is as follows:

	2006		2005	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Provision for multiple usage tare (change in accounting principles)			2.718	408
Provision for multiple usage tare (expected to be sold in 2007)	760	137		
Provision for other stock	1.715	257	1.283	192
Provision for fixed assets	4.900	735	5.408	811
Provision for amounts receivable	1.721	258	1.733	260
Tax loss carry forward	2.869	430	7.022	1.053
Vacation accrual	1003	173	766	115
Other			50	7
Adjustment of realizable value of deferred tax		(726)		(1.911)
Deferred tax asset total		1.264		936
Carrying amount of non-current assets for which investment relief was used	(8.188)	(1.228)	(11.271)	(1.691)
Non realized revaluation gain on AB Šiaulių bankas shares	(11.851)	(1.778)	(9.328)	(1.399)
Deferred tax liability total		(3.006)		(3.090)
Net deferred tax		(1.742)		(2.154)

The current profit tax rate for the year ended 31 December 2006 is 15% (2005: 15%). According to the amended Lithuanian tax legislation, for the taxable periods starting from 1 January 2006 to 31 December 2007, Groups' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred tax asset is calculated on the provision for multiple usage tare of 760 tLTL and part of vacation accrual as at 31 December 2006 according to the rate of 18% as it is expected to realize these temporary differences during the year 2007. The deferred tax on the other temporary differences do not take into account the additional social tax imposed on taxable profits because it was considered to be immaterial and the Group does not expect to realize these differences during the following financial year.

Part of deferred tax liability of 1,778 tLTL as at 31 December 2006 is recorded in equity against the revaluation reserve formed on AB Šiaulių Bankas shares.

The change in deferred tax could be presented as follows:

	2006	2005
Deferred tax asset (liability) as at 1 January	(2.154)	(1.091)
Change in deferred tax booked in income statement	790	336
Change in deferred tax booked in equity	(378)	(1.399)
Deferred tax asset (liability) as at 31 December	(1.742)	(2.154)

**Notes to the consolidated financial statements**  
**for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

## 20. Social contribution of AB Alita

During 2006 and 2005 the Group contributed to the following interest groups:

	2006	2005
Sales, net of excise tax and VAT	143.463	136.494
Excise duty	123.303	121.126
Sales VAT	50.465	47.369
Gross sales	<u>317.231</u>	<u>304.989</u>
Cost of sales and operating expenses excluding depreciation and amortisation, salaries, wages and taxes	(87.582)	(84.613)
Purchase VAT	<u>(17.170)</u>	<u>(14.337)</u>
Total cost of sales and expenses	<u>(104.752)</u>	<u>(98.950)</u>
At disposition for allocation among interest groups	<u>212.479</u>	<u>206.039</u>
Allocated as follows:		
<u>To the society:</u>		
Excise duty	123.303	121.126
VAT, income tax, social security and other taxes	<u>45.835</u>	<u>44.812</u>
Total to the society	169.138	165.938
<u>To 612 employees (2005 - 732 employees):</u>		
Salaries, wages and bonuses less withholding tax on income*	9.919	10.357
<u>To the shareholders:</u>		
less withholding tax on income	6.489	1.734
<u>To secure the Group's future:</u>		
Depreciation, amortisation and transfers to equity	<u>26.933</u>	<u>28.010</u>
Total	<u>212.479</u>	<u>206.039</u>

\* Salaries, wages and bonuses including personal income tax and social insurance tax in the financial statements distributed as follows:

To cost of sales	7.880	9.105
To selling and distribution expenses	2.754	2.754
To general and administrative expenses	<u>6.180</u>	<u>6.180</u>
Total	<u>16.814</u>	<u>18.039</u>

## 21. Financial instruments

### Financial risk management

The Group operates in an environment, giving rise to significant exposures to credit, foreign exchange and liquidity risks. The Group uses various techniques to manage those risks, as described below.

### Foreign exchange risk

Major currency risks of AB Alita occur due to the fact that the Group borrows foreign currency denominated funds as well as being involved in imports and exports. The Group does not use any financial instruments to manage its exposure to foreign exchange risk.

Trade and other receivables, short-term loans and accrued liabilities are denominated in Litas. Trade accounts payable denominated in Litas and foreign currencies to the suppliers as of 31 December 2006 and 2005 were as follow:

	2006	2005
LTL	5.906	5.629
EUR	1.875	913
USD	-	9
LVL	94	29
GBP	-	-
Total	<u>7.875</u>	<u>6.580</u>

**Notes to the consolidated financial statements****for the year ended 31 December 2006**

(LTL '000 unless otherwise stated)

Loans were as follow:

		2006	2005
Long-term loans	EUR	27.853	67.606
Credit lines	LTL	11.485	-
<b>Total</b>		<u>39.338</u>	<u>67.606</u>

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit line facilities.

Credit risks

Due to the specifics of its operations, the Group has significant concentration of credit risk (over 90% of total turnover) with few major counterparties, UAB Sanitex, MAXIMA LT, UAB, UAB Palink, UAB Rivona, UAB Aibės Logistika and UAB Eugesta being its major wholesale buyers.

The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history. The Group provides payment discounts to the clients that pay in advance.

The Group does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables (Note 8) and other current assets, net of impairment losses recognized at the balance sheet date.

Fair value of financial instruments

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

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

Carrying amount of trade amounts receivable, other financial property, amounts payable and short-term credit lines is close to their fair value. The settlement period with suppliers is from 10 to 30 days, and credit terms of purchasers' is from 15 to 45 days. Not permanent clients are required to pay in advance.

The fair value of the long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

**22. Transactions with related parties****Loans issued to the shareholders of the Group**

	2006	2005
Long term part of loans	4.168	9.395
Current portion of long-term loans	520	1.080
<b>Total loans</b>	<u>4.688</u>	<u>10.475</u>

**23. Events after the balance sheet date**

On 9 March 2007 the Board of Alita decided to acquire 100% shares of the wholesale company Daivalda, which holds 100% shares of UAB Vilkmėrgės Alus.

**24. Contingent liabilities**

AB Anykščių Vynas rents 2 land plots from the state. The annual rent fee is approximately 28 thousand Litas. The environmental obligations (cleaning, restoration, etc.) are incumbent on the rented state land. No provision is included in the financial statements as at 31 December 2006 as the management was not able to estimate timing and amount of such works.

The Group does not have other significant contingent liabilities except for the mentioned in note 14 pledged assets and other obligations to AB Hansabankas.

## ANNUAL REPORT FOR 2006

This report relates to financial statements and consolidated financial statements

### 1. THE COMPANY GROUP MANAGEMENT BOARD

In the beginning of 2006 the Management Board of the JSC „Alita“ consisted of four members:

V. Junevičius	Chairman JSC „Alita“ General Director
V. Pečiūra	Member JSC „Alita“ Finance and Administration Director
A. Stankevičius	Member JSC „Alita“ Production Director
D. Vėželis	Member JSC „Alita“ Marketing and Sales Director

During the current year the composition of the Management Board did not change. The Management Board had 16 meetings. The important problems were discussed in the meetings – the Company strategy was formed, the production activity, the activity results of different quarters, the data of financial statements were analyzed.

The same members as in the JSC „Alita“ made the Management Board of the subsidiary – the JSC „Anykščių Vynas“ in 2006. In 2006 the Management Board held 11 meetings where important problems were discussed – the change of the management structure, the sale of unnecessary Company asset, lending, analysis of the activity results and other problems.

### 2. THE CAPITAL STRUCTURE, GENERAL INFORMATION

At the beginning of the year the authorised capital of the JSCF „Alita“ amounted to 50 827 209 LTL. It was divided into the nominal value of 1 LTL ordinary registered shares, whereof 83.77% or 42 577 954 shares belonged to the co-owners, the managers of the JSC „Alita“, V. Junevičius, V. Pečiūra, A. Stankevičius and D. Vėželis, the rest 16.23% or 8 49 255 shares belonged to the small shareholders.

During the current year neither the authorised capital nor the number of the co-owners shares changed.

The ordinary registered shares are registered into the Vilnius Stock Exchange current trade list. The information about share prices and turnover in the central market during 2006 is shown in the table below:

The JSC „Alita“ share prices and turnover in the central market, LTL

Year and quarter	Price, LTL		Turnover, LTL		General turnover	
	Maximum	Minimum	Maximum	Minimum	Unit	LTL
2006 I quarter	3.39	2.80	665 945.86	-	803 511	2 460 339.15
2006 II quarter	3.00	2.20	156 788.35	-	636 941	1 529 584.93
2006 III quarter	3.12	2.39	331 765.72	-	573 593	1 626 096.31
2006 IV quarter	4.30	3.01	148 241.10	-	650 202	2 245 955.03

In the current year the Company did not purchase any of its shares.

On January 1, 2006 the JSC „Alita“ had 46 954 708 units or 95.65% of ordinary registered shares of its subsidiary the JSC „Anykščių Vynas“, the nominal value of the shares is 1 LTL. In January-December, 2006 the JSC „Alita“ sold 377 138 shares of the JSC „Anykščių Vynas“ that belonged to it. In December, 2006 the Company had 46 577 570 units or 94.90% of ordinary registered shares. 2 502 965 units or 5.1% of the JSC „Anykščių Vynas“ shares belonged to the other small shareholders. On December 31, 2006 the JSC „Anykščių Vynas“ shares were in the hands of 333 shareholders. During the current year the nominal value of the JSC „Anykščių Vynas“ shares and the authorised capital did not change. In 2006 the JSC „Anykščių Vynas“ received the profit of 2.1 mln LTL.

On January 1, 2006 the JSC „Alita“ had 3 514 882 or 4.15% ordinary registered shares of the JSC „Šiaulių Bankas“. In May, 2006 after the JSC „Šiaulių Bankas“ increased the authorised capital, the JSC „Alita“ received 386 637 units of ordinary registered shares free of charge. In October, 2006 the JSC „Alita“ acquired 748 899 ordinary registered shares of the JSC „Šiaulių Bankas“. At the end of the year the JSC „Alita“ had 4 650 418 units or 4.26% of the ordinary registered shares of the JSC „Šiaulių Bankas“.

In December, 2006 the Company opened its Embassy in the Republic of Latvia.

In 2006 there were no official proposals from the third parties to purchase the ordinary registered shares of the JSC „Alita“. The Joint-Stock Company „Alita“ also did not announce any official proposals to purchase the securities of the other emitents.

In 2006 the JSC „Anykščių Vynas“ had no subsidiaries.

During the current financial year the Company did not purchase its shares and it has no shares at all.

The JSC „Anykščių Vynas“ had no shares of the other companies and did not acquire them.

The Company has no branches and embassies.

### 3. THE IMPORTANT YEAR EVENTS.

The JSC „Alita“ and the JSC „Anykščių Vynas“ are the two Lithuanian Companies with their old wine production traditions and the JSC „Alita“ is the only Company in Lithuania that produces sparkling grape wine of natural fermentation, the product „Samanė“ that has the production tradition of antecedents, and the only Lithuanian name having cognac „Alita“. The main activity rules of these Companies is to produce a qualitative product, to meet the customer needs because the Lithuanian customer is the Company priority. It is gratifying to know that the efforts to propose the drinks of the highest quality are valued by the Lithuanian population.

Without the main thing – the real customer appreciation –the official production evaluation is not less important. In December, 2006 the sparkling wine „Alita“ of the JSC „Alita“, produced according to the process that was prepared in June, received the Gold medal in the competition (that was organized by the Lithuanian Industrial Confederation and the Ministry of Economics of the Republic of Lithuania). The Brandy „Alita XO“ received the same award. It continues the series of the awards received by the Brandy „Alita“. In September the Brandy „Alita XO“ received the main award „Grand Prix“ in the International Foods and Technologies exhibition „Riga Food – 2006“. The products of the JSC „Anykščių Vynas“ – liqueur „Topi Brandy Cream“ and cider „Antano“ won the Gold medals in the competition „Lithuanian Year Product“. In May, 2006 vodka „Premium Gera“ got the Bronze medal in the competition „International Spirits Challenge 2006“ in London.

The JSC „Alita“ develops its Quality Management System according to the requirements of EN ISO 9001:2000 standards constantly. The quality management is the obligation never to be satisfied. „Very well“ is not enough well. It is always possible and necessary to develop the quality. The quality term is applied not only to the final product but also how the Company presents its production, how fast and in what way it responds to the customer complaints. Today's Quality system is based with eight management principles, in order to satisfy and surpass the customer needs.

The work of each organization influences not the quality of the production, but it also influences the environment, people and worker health. In order to control better their work, the production influence on the environment the Companies work according to the requirements of the Environment Management System EN ISO 14001:2004 standards. It is proved in all the small, average and big companies apparently that the increased environment protection helps to save. When a company takes care of environment protection before the problems arise, the costs decrease and competitive ability increases.

In 2006 782 contracts were made and signed with our customers and suppliers, supplying the Company with main and aid materials, equipment and services of promotion, marketing, consultation and others. All the customer claims are registered in the Company and the decisions are made on every case. In 2006 the total sum of 136.2 thousand LTL was recovered from the debtors of the previous years. Three claims were made to the transporters for 0.7 thousand LTL. All the claims were complied fully and the sums were paid.

### 4. INFORMATION TECHNOLOGIES

The information technologies, computers, the use of the internet have a special importance in today's commerce. A lot of work was done in the above mentioned fields both in the current year and previous years.

In 2006 the accounting program „MBS Axapta“ that was used in the JSC „Alita“ was installed in the subsidiary company „Anykščių Vynas“. In order to ensure the functional work between the JSC „Alita“ and the JSC „Anykščių Vynas“ the virtual net fast work is increased to 1 Mbps.

In order to renew the hardware 20 new computers and 3 laser printers were bought. At the end of 2006 there were 157 computers. 114 workers use the internet. The internet speed increased to 1 Mbps. The investments in the information technologies made 255.9 thousand LTL in 2006.

### 5. THE STAFF

In 2006 there were average 597 workers in the JSC „Alita“ and the JSC „Anykščių Vynas“. At the end of the year there were 599 workers (at the end of 2005 – 602), 466 (77.8%) workers and 113 (22.2%) specialists and employees among them.

237 workers work in the production, 228 workers work in the service shop, the unindustrial staff (commerce subdivisions, resort, builders) consists of 29 people, 61 people work in the marketing and sale service, 44 people are the other administration workers.

51.8% of all the workers are women, 48.2% are men. 21.7% have a higher education, 34.2% have a further education.

All the time the workers improve their knowledge and raise their qualification. In 2006 178 specialists and employees took part in different trainings, 152 workers were trained and certified for the safety and health subjects, 7 workers are studying in the higher schools. Total 94.7 thousand LTL were spent for the specialist and worker training.

In 2006 there were 2 accidents on the way to work in the JSC „Alita“, 3 accidents in the JSC „Anykščių Vynas“, 2 of them were easy, 1 – serious. The investigation of the serious accident is still going on.

The average monthly salary of a worker was 1630 LTL in 2006 (in 2005 it was 1532 LTL).



**6. MARKETING AND SALES**

In 2006 the alcohol market was marked with a big competition among the producers, importers and different groups of alcoholic drinks.

The JSC „Alita“ hand in hand with its subsidiary JSC „Anykščių Vynas“ a lot of attention paid to the quality of the production, market innovation and strengthening of the acknowledged trade marks. The chosen balanced marketing and sales strategy determined the successful sales and the increase of selling volumes of the sparkling wine, alcoholic cocktails, cider, fruit wine and brandy, liqueurs.

The total market of the champagne and sparkling wine in Lithuania increased 19.10%. The division of the sparkling wine market in Lithuania is shown in the table below.

**The division of the Lithuanian sparkling wine market in 2005 – 2006, %**

	2005	2006
JSC „Alita“	72,2	74,1
The other local producers	2,5	4,1
Import	25,3	21,8
Total:	100,0	100,0

**Carbonated drinks**

The selling of carbonated drinks was 1 914 HL less than in the previous year. The total market of the carbonated wine drinks decreased 2 253 HL or 7% in 2006 in comparing with 2005. Though the selling decreased in its absolute volume but as the whole carbonated drink market shrank, the occupied market share in the Lithuanian market increased 8.0%.

**The division of the Lithuanian carbonated drink market in 2005-2006, %**

	2005	2006
JSC „Alita“ and JSC „Anykščių Vynas“	28,6	36,6
The other local producers	54,7	47,2
Import	16,7	16,2
Total:	100,0	100,0

**Alcoholic cocktails**

In 2006 the alcoholic cocktails were sold 10 891 HL or 47% more than in 2005. The JSC „Alita“ increased 79% of export of this product group. The division of the market share of alcoholic drink producers in Lithuania is given in the table. According to the knowing test „Mix“ is the best known trade mark in the cocktail class. In 2007 there is a prospect to introduce some cocktails of the new taste, to extend the bottling of these products into other size of bottles.

**The division of the market of the Lithuanian alcoholic cocktails in 2005-2006, %**

	2005	2006
JSC „Alita“ and JSC „Anykščių Vynas“	27,1	23,6
The other local producers	72,9	76,4
Total:	100,0	100,0

**Wine**

The year of 2006 was favourable for the fruit wine sale. Though the grape wines were sold 434 HL less in 2006 than in 2005, but the fruit wine sale increased 8 475 HL or 23.6%. The increase of the sale was determined by the renewal of the assortment. In 2006 two new fruit wines of a special technology were presented to the customer – „Pastogė“ white and „Pastogė“ red in the JSC „Alita“, the apple wine „Kelelis“ and the fruit and berry wine „Kelelis“ in the JSC „Anykščių Vynas“. The occupied wine market share is given in the table below.

**The division of the Lithuanian fruit wine market in 2005-2006, %**

	2005	2006
JSC „Alita“ and JSC „Anykščių Vynas“	32,8	32,7
The other local producers	64,8	56,8
Import	2,4	10,5
Total:	100,0	100,0

### Strong drinks

The sale of strong drinks almost didn't change in 2006 in comparing with 2005, i.e. it decreased only 8 HL. Though the sale of kinds of brandy and whisky fell, but the sale of vodka, brandy, liqueurs and the other strong drinks rose.

The sale of vodka decreased 1 042 HL or 1.2% in Lithuania in 2006 in comparing with 2005. But it must be mentioned that the vodka export increased 2.2 times. Though the export part is not big but it seems likely that the trade relations with the new customers would develop and the export will increase in 2007. The occupied share in the Lithuanian vodka market is given in the table below.

#### The division of the Lithuanian vodka market in 2005-2006, %

	2005	2006
JSC „Alita“ and JSC „Anykščių Vynas“	24,4	19,0
The other local producers	66,4	72,1
Import	9,2	8,9
Total:	100,0	100,0

The sale of the other strong drinks decreased 433 HL or 1.5% in 2006. Brandy is the most important among the other strong drinks. It must be mentioned, that the sale tendency – to sell more every year – remained. The brandy sale (together with cognac) increased 434 HL, in comparing with 2005. Though the occupied market share decreased 5.7%, the brandy „Alita“ takes the striking 36.1% share in the Lithuanian brandy market. The division of the Lithuanian brandy market is shown in the table below.

#### The division of the Lithuanian brandy market in 2005 – 2006, %

	2005	2006
JSC „Alita“ and JSC „Anykščių vynas“	48,0	42,3
The other local producers	19,9	16,9
Import	32,1	40,8
Total:	100,0	100,0

In 2006 the liqueur sale increased 214 HL in comparing with 2005. The JSC „Anykščių Vynas“ liqueurs takes 11% of the Lithuanian liqueur market share. A lot of attention was paid for the increase of „TOPI“ trade mark knowing. In September „TOPI“ cream liqueurs „Topi brandy cream“ and „Topi chocolate cream“ were launched and they caught the attention of the sellers and users. The liqueur „Topi brandy cream“ won the Gold medal in the competition „The Lithuanian Year Product 2006“. The division of the Lithuanian liqueur market is shown in the table below.

#### The division of the Lithuanian liqueur market in 2005 – 2006, %

	2005	2006
JSC „Anykščių Vynas“	11,6	11,0
The other local producers	50,0	38,0
Import	38,4	51,0
Total:	100,0	100,0

In 2006 the export amounted to 20.3 mln LTL or 14.1% of all the sales. The Company exports its production to Ireland, Denmark, Great Britain, Estonia, Spain, the USA, the United Arab Emirates, Latvia, Poland, Finland, Germany. The export decreased 2.7 mln LTL in the terms of money, in comparing with the last year. It must be mentioned that the sale of the alcoholic production increased. The sale of the apple production depends on the apple crop. The bad apple crop in 2005 had an influence on the apple production export decrease 21.1% or 3.7 mln LTL. The export of the alcoholic production increased 21.2% or 1.0 mln LTL.

## 7. THE PRODUCTION

In 2006 the development of production and technological processes continued. Although the technology, machines, work organization already meet the requirements of the EU, the Companies, clearly understanding, that the technical progress is the prospect of the firm, paid their attention to the investments – for the installation of the new technologies, modernization of the machines. In 2006 2.8 mln LTL were dedicated for the investments into the long term assets in both companies.

During the current year 3153.6 thousand LTL were spent for the repair and maintenance of the machines, 965.3 thousand LTL were spent for the building repair, 340.8 thousand LTL were spent for the maintenance and repair of the transportation means, 298.9 thousand LTL were spent for the maintenance and supervision of the territory, 111.3 thousand LTL were given for the maintenance of information system and computers. The implemented innovations enabled to increase the work productivity, to improve the production quality, to save the energy recourses, to improve the working conditions.

In 2006 the range of the production was renewed with 38 new drinks, the production of 17 prospectless products was stopped. Total 162 names of different alcoholic drinks were proposed to the customers. They are: the sparkling wines, carbonated drinks, alcoholic cocktails, ciders, fruit-berry and grape wines, vodka, kinds of brandy and liqueurs. Non-alcoholic production includes apple and berry concentrated juice, apple aroma and apple dried pomace.

The production volumes of the JSC „Alita“ and the JSC „Anykščių Vynas“ in 2005-2006

	Production group	Unit.	2005	2006
1	Sparkling grape wine	HL	26 426	33 073
2	Carbonated wine drinks	HL	38 583	36 322
	Total sparkling wines:	HL	65 009	69 395
3	Alcoholic cocktails	HL	23 294	34 479
4	Ciders	HL	8 832	15 217
5	Wines	HL	35 056	41 262
6	Vodka	HL	57 300	59 262
7	The other strong drinks	HL	29 245	29 315
	Ciders (unbottled)	HL	7 800	38 800
	Total alcoholic production:	HL	226 536	287 731
8	Apple concentrated juice (70 Bx)	T	5 878	6 103
9	Apple aroma	T	330	454
10	Dried pomace	T	1 914	1 952

In 2006 the total volumes of alcoholic production in hectolitres increased 27.0% (in comparing with 2005), more than 3.8% of apple concentrated juice, 37.5% of apple aroma, 2.0% of dried pomace were made in comparing with the last year.

The price of the purchased raw material and material play a great role in the production cost. The Purchasing department regulates the price of the purchased stock and quality problems knowingly. In order to supply the companies with qualitative raw material, the long term supply contracts are signed with the regular and respectable suppliers in Lithuania and other countries. The long term collaboration agreements with the suppliers and big quantities of the purchased stocks (making the contracts of the JSC „Alita“ and the JSC „Anykščių Vynas“ at the same time) allow to reduce the purchasing prices and to get better supply terms, to save money.

A special attention is paid to the production quality. In 2006 the production quality was controlled by the workers of the production technological laboratory who work according to the methodical instructions of ISO 9001 and MS RVAASVT quality management systems. The workers of the production technological laboratory examine the new wine testing methods, they use the changes of the technological and control methods in their work. The JSC „Alita“ technologists introduced the vodka production technology, treating the production with cold and adding oxygen. The treatment of cider and grape wine semimanufactures in the production with cold is introduced and the organoleptic features became better. The concentrated juice production shop mastered the enzyme dosing system of the mash and this allowed to increase the juice output and to decrease the cost.

## 8. THE FINANCE

On December 31, 2006 the JSC „Alita“ asset value was 148.3 mln LTL. In comparing with the same period of the last year the asset decreased 12.8 mln LTL (especially because of money and the change of their equivalents). The long term asset of the Company amounts to 69% of all the property and its part increased 2% last year. The short term asset amounts to 31%.

The capital stock did not change last year. On December 31, 2006 the owner's equity was 87.8 mln LTL, and was 59% of all the owner's equity and liabilities. The long term liabilities decreased from 40.4 mln LTL to 4.6 mln LTL and made only 3% (at the end of 2005 – 25%). The short term liabilities were equal to 55.9 mln LTL and made 38%. Total long term and short term liabilities were equal to 60.5 mln LTL and made 41%.

In 2006 the Company received 15 624 thousand LTL of net profit. In comparing with 2005 the result is 201 mln thousand LTL or 1.3% worse. From the given table we can see that in comparing 2006 with the previous year both the gross, and the profit before taxes increased: the gross profit was 3 301 thousand LTL or 7.3%, the profit before taxes was 515 thousand LTL or 2.7%. The introduced innovations and harmonic collective work gave such good results.

The principle indicators describing the Company financial situation are given in the table below.

	31 12 2005	31 12 2006
Debts to the banks at the end of the period, mln. LTL	60,0	36,2
Debt-property ratio	1,07	0,69
General debt ratio	0,52	0,41
Gross circulating capital, mln. LTL	10,6	-10,3
Current liquidity ratio	1,2	0,8
Property turnover ratio	0,62	0,74
Gross profit ratio	0,45	0,44
Net profit ratio	0,16	0,14

On December 31, 2006 the value of the Company consolidated property was 166.1 mln LTL. In comparing with the same period of the last year we see that the property decreased 14.2 mln LTL (especially because the change of money and its equivalents). The Company long term property makes 59% of all the property and its share did not change in the previous year. The short term property makes 41%.

**Annual report  
for the year ended 31 December 2006**  
(LTL '000 unless otherwise stated)

The consolidated capital did not change during the recent years. On December 31, 2006 the owner's equity was 92.2 mln LTL, and that made 56% of all the owner's equity and liabilities. The long term liabilities decreased from 43.5 mln LTL to 5.1 mln LTL and made only 3% (at the end of 2005 - 24%). The short term liabilities were equal to 68.0 mln LTL and made 41%. Total long term and short term liabilities were equal to 73.2 mln LTL and made 44%.

In 2006 the Company received 17 624 thousand LTL of consolidated net profit. In comparing with 2005 the results are 532 thousand LTL or 2.9% worse. We can see in the given table that in comparing 2006 with 2005 the gross profit increased 940 thousand LTL. But the increased operating expenses (the reasons are given above) determined that both the profit from operations, and the profit before taxes decreased: the profit from operations – 1 335 thousand LTL or 5.9%, the profit before taxes – 608 thousand LTL or 2.9%

The consolidated main indices describing the Company financial situation are shown in the table below

	31 12 2005	31 12 2006
Debts to the banks at the end of the period, mln. LTL	60,0	36,2
Debt-property ratio	1,07	0,69
General debt ratio	0,52	0,41
Gross circulating capital, mln. LTL	10,6	-10,3
Current liquidity ratio	1,2	0,8
Property turnover ratio	0,62	0,74
Gross profit ratio	0,45	0,44
Net profit ratio	0,16	0,14

## 9. THE COMPANY AND THE SOCIETY

The JSC „Alita“ plays a big role in the social and cultural life of the country and town. In 2006 the budget of the Republic of Lithuania received 106.8 mln LTL in the form of different taxes.

The means for the social care, giving the Company workers the deferred pay, are foreseen in the collective agreement. In 2006 87.6 thousand LTL were given to the different payouts.

Every year the Company gives funds for the worker social and cultural program. The workers receive the first aid, physiotherapy, odontology services in the medical post. There is a canteen, foods shop in the Company. There are conditions for physical culture and sports. During the vacation the Company workers and their families can use the resort in Ryliškės.

The Company gives a part of the profit to support the art, sport and other collectives, who have a right to get a support and charity. In 2005 the Company dedicated 1 027.1 thousand LTL for the support and charity. The Company pays a lot of attention to the promotion during the cultural events and at the same time it propagates and strengthens the Lithuanian culture.

## 10. THE COMPANY PLANS AND FORECASTS

In 2007 the Group is planning to reach 152 mln LTL consolidated turnover and to receive 13.5 mln LTL consolidated net profit. In 2007 it is planning to give 4.7 mln LTL to the investments.

### NOTE:

AB Alita report concerning the Governance Code for the companies listed on Vilnius Stock Exchange is attached to these consolidated financial statements prepared in the Lithuanian language.