

plis 04-0160

AB „VILNIAUS DEGTINĖ“

*Independent Auditor's Report and
financial statements for the year
ended 31 December 2005*

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INDEPENDENT AUDITOR'S REPORT

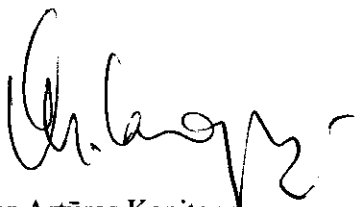
To the shareholders of AB "Vilniaus degtinė"

1. We have audited attached hereto the financial statements of AB "Vilniaus degtinė", which comprise the balance sheet as at 31 December 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and the explanatory note. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain sufficient evidence to confirm that there are not material misstatements of information in the financial statements. During the audit, on a test basis, the evidence supporting the amounts and disclosures of the financial statements were examined. During the audit, the accounting principles applied and the significant estimates made by the management were assessed, as well as the overall financial statement presentation. We believe that our audit provides a sufficient basis for our opinion.

3. In our opinion, the financial statements give a true and fair view of the financial position of AB "Vilniaus degtinė" as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

UAB Mokesčių ekspertų biuras
Audit company's certificate No 000407



Auditor Artūras Kapitanovas
Auditor's certificate No 000115

28-02-2006
Vilnius

AUDITED

AB „Vilniaus degtinė“
(enterprise name)

120057287, Panerių Str. 47/2, Vilnius, 852330819
(enterprise identification number, address, other information)

APPROVED
Minutes No _____
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BALANCE SHEET

31 December 2005

2005 year
(reporting period)


in litas
(reporting currency and level of its accuracy)

	ASSETS	Note No.	Financial year	Previous financial year
A.	NON-CURRENT ASSETS		36,042,035	38,378,466
I.	INTANGIBLE ASSETS		17,843,638	18,844,034
I.1.	Development works			
I.2.	Goodwill			
I.3.	Licences and patents		17,690,432	18,624,960
I.4.	Computer software		153,206	219,074
I.5.	Other intangible assets			
II.	TANGIBLE ASSETS		17,739,764	19,080,427
II.1.	Land			
II.2.	Buildings and constructions		9,136,092	6,172,400
II.3.	Plant and equipment		4,327,660	4,868,663
II.4.	Vehicles		292,700	248,354
II.5.	Other property, plant and equipment		697,426	731,214
II.6.	Construction in progress		3,265,224	7,056,602
II.7.	Other tangible assets		20,662	3,194
II.8.	Investment assets		0	0
II.8.1.	Land			
II.8.2.	Buildings			
III.	FINANCIAL ASSETS		25,872	20,276
III.1.	Investments in subsidiaries and associates			
III.2.	Loans to subsidiaries and associates			
III.3.	Amounts receivable after one year		25,872	20,276
III.4.	Other financial assets			
IV.	OTHER NON-CURRENT ASSETS		432,761	433,729
IV.1.	Deferred profit tax assets		432,761	433,729
IV.2.	Other non-current assets			
B.	CURRENT ASSETS		39,401,574	18,349,206
I.	INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS		5,680,231	6,157,758
I.1.	Inventories		5,507,186	6,031,528
I.1.1.	Raw materials and components		4,679,408	4,798,722
I.1.2.	Work in progress		78,603	49,364
I.1.3.	Finished products		707,984	1,183,442
I.1.4.	Goods for resale		41,191	
I.2.	Prepayments		173,045	126,230
I.3.	Contracts in progress			
II.	AMOUNTS RECEIVABLE WITHIN ONE YEAR		25,938,375	11,218,118
II.1.	Trade amounts receivable		24,336,301	10,646,757
II.2.	Receivables from subsidiaries and associates			
II.3.	Other amounts receivable		1,602,074	571,361
III.	OTHER CURRENT ASSETS		0	0
III.1.	Current investments			
III.2.	Time deposits			
III.3.	Other current assets		0	0
III.3.1.	Profit tax paid in advance			
III.3.2.	Other current assets			
IV.	CASH AND CASH EQUIVALENTS		7,782,968	973,330
	TOTAL ASSETS		75,443,609	56,727,672

	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
C.	EQUITY		33,292,260	29,434,952
I.	CAPITAL		24,408,431	24,408,431
I.1.	Authorised (subscribed)		24,408,431	24,408,431
I.2.	Subscribed uncalled share capital (-)			
I.3.	Share premium			
I.4.	Own shares (-)			
II.	REVALUATION RESERVE (RESULTS)			
III.	RESERVES		2,440,843	12,481,578
III.1.	Legal reserve		2,440,843	2,440,843
III.2.	Reserve for acquiring own shares			
III.3.	Other reserves			10,040,735
IV.	RETAINED EARNINGS (LOSSES)		6,442,986	(7,455,057)
IV.1.	Profit (loss) of the reporting year		3,857,308	1,007,316
IV.2.	Profit (loss) of the previous year		2,585,678	(8,462,373)
D.	GRANTS AND SUBSIDIES			
E.	AMOUNTS PAYABLE AND LIABILITIES		42,151,349	27,292,720
I.	NON-CURRENT AMOUNTS PAYABLE AND LIABILITIES		15,272,665	17,743,747
I.1.	Financial debts		14,468,958	17,433,118
I.1.1.	Leases and similar obligations			35,322
I.1.2.	To credit institutions		14,468,958	17,397,796
I.1.3.	Other financial debts			
I.2.	Trade amounts payable			
I.3.	Amounts received in advance			
I.4.	Provisions		0	0
I.4.1.	For covering liabilities and demands			
I.4.2.	For pensions and similar obligations			
I.4.3.	Other provisions			
I.5.	Deferred profit tax liabilities		803,707	310,629
I.6.	Other amounts payable and non-current liabilities			
II.	CURRENT AMOUNTS PAYABLE AND LIABILITIES		26,878,684	9,548,973
II.1.	Current portion of non-current debts		2,964,186	1,613,905
II.2.	Financial debts		0	0
II.2.1.	To credit institutions			
II.2.2.	Other debts			
II.3.	Trade amounts payable		8,948,721	2,569,980
II.4.	Amounts received in advance		104,844	128,081
II.5.	Profit tax liabilities		21,910	6,389
II.6.	Liabilities related with labour relations		439,295	347,617
II.7.	Provisions			
II.8.	Other amounts payable and current liabilities		14,399,728	4,883,001
	TOTAL EQUITY AND LIABILITIES		75,443,609	56,727,672

Director General

title of the head of enterprise
administration


(signature)

Danas Kerbelis

(full name)

AUDITED

AB „Vilniaus degtinė“
(enterprise name)

120057287, Panerių Str. 47/2, Vilnius, 852330819
(enterprise identification number, address, other information)

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Minutes No _____
_____ 20__

INCOME STATEMENT

31 December 2005

2005 year

(reporting period)

in litas

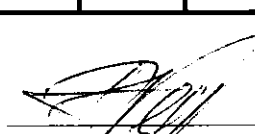
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No.	ITEMS	Note No.	Financial Year	Previous financial year
I.	SALES INCOME		47,075,913	29,347,089
II.	COST OF SALES		20,531,588	16,018,597
III.	GROSS PROFIT (LOSS)		26,544,325	13,328,492
IV.	OPERATING COSTS		21,078,222	12,156,220
IV.1	Sales		12,937,965	5,462,684
IV.2	General and administrative		8,140,257	6,693,536
V.	OPERATING PROFIT (LOSS)		5,466,103	1,172,272
VI.	OTHER ACTIVITIES		(326,149)	236,517
VII.	FINANCING AND INVESTING ACTIVITIES		(660,369)	(432,327)
VIII.	PROFIT (LOSS) BEFORE TAX		4,479,585	976,462
IX.	PROFIT TAX		622,277	(30,854)
X.	PROFIT (LOSS)		3,857,308	1,007,316

Earnings per share		0.158	0.041
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Director General

title of the head of enterprise
administration


(signature)
Danas Kerbelis

(full name)

AB „Vilniaus degtinė“

(enterprise name)

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STATEMENT OF CHANGES IN EQUITY

31 December 2005

2005 year
(reporting period)

in litas

No.		Paid up authorised capital	Share premium	Own shares (-)	Legal reserves		Other reserves	Retained earnings (losses)	Total
					compulsory	Acquisition of own shares			
1	Balance at the beginning of previous financial year	24,408,431	0	0	2,440,843	0	9,799,712	(8,272,273)	28,376,713
2	Result of change in accounting policies							50,923	50,923
3	Result of correcting essential errors								0
4	Recalculated balance at the beginning of previous financial year	24,408,431	0	0	2,440,843	0	9,799,712	(8,221,350)	28,427,636
5	Acquisition / sales of own shares								0
6	Profit / loss, excluded from Income Statement								0
7	Net profit / loss of the reporting period							935,139	935,139
8	Result of change in accounting policies							72,177	72,177
9	Dividends								0
10	Other payments								0
11	Formed reserves						241,023	(241,023)	0
12	Used reserves								0
13	Increase / reduction of authorised capital								0
14	Balance at the end of previous financial year	24,408,431	0	0	2,440,843	0	10,040,735	(7,455,057)	29,434,952
15	Acquisition / sales of own shares								0
16	Profit / loss, excluded from Income Statement								0
17	Net profit / loss of the reporting period							3,857,308	3,857,308
18	Dividends								0
19	Other payments								0
20	Formed reserves								0
21	Used reserves						(10,040,735)	10,040,735	0
22	Increase / reduction of authorised capital								0
23	Balance at the end of reporting financial year	24,408,431	0	0	2,440,843	0	0	6,442,986	33,292,260

Director General
(title of the head of enterprise administration)

7

(signature)

Danas Kerbelis
(full name)

AB „Vilniaus degtinė“
(enterprise name)

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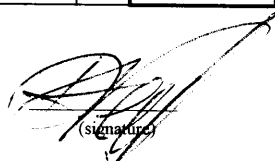
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CASH FLOW STATEMENT

31 December 2005

2005 year (reporting period)		in litas to specify – in litas or thousands of litas	
No.	ITEMS	Note No.	Financial Year Previous financial year
I.	Cash flows from operating activities		
I.1.	Profit (loss)		3,857,308 1,007,316
	<i>Elimination of non-cash transactions</i>		
I.2.	Depreciation and amortization costs		3,029,278 1,969,618
I.3.	Profit (losses) from transfer and written down of non-current assets		171,766 (100,929)
I.4.	Non-current tangible assets impairment loss		337,753
I.5.	Inventory write-down impairment loss		(319,529) (802,576)
I.6.	Doubtful amounts expenses		(383,604) (246,596)
I.7.	Profit tax		622,277 (30,854)
I.8.	Interest income		(98,175) (60,018)
I.9.	Interest expenses		762,656 480,086
I.10.	Other financial expenses		8,194
	<i>Changes in assets and liabilities</i>		
I.11.	Decrease (increase) in amounts receivable after one year		(5,596) (20,276)
I.12.	Decrease (increase) in inventory		790,410 2,287,151
I.13.	Decrease (increase) in advances received		(46,815) 103,078
I.14.	Decrease (increase) in trade receivables		(13,385,145) (4,812,661)
I.15.	Decrease (increase) in other amounts receivable		(951,508) (252,288)
I.16.	Increase (decrease) in current payables to suppliers and advances received		6,355,504 (62,904)
I.17.	Increase (decrease) in liabilities connected with labour relations		91,678 (49,540)
I.18.	Increase (decrease) in other amounts payable and liabilities		9,519,147 1,230,460
I.19.	Profit tax paid		(112,711) (83,216)
	Net cash flows from operating activities		10,234,694 564,045
II.	Cash flows from investing activities		
II.1.	Acquisition of non-current assets (excluding investments)		(1,197,205) (20,144,809)
II.2.	Transfer of non-current assets (excluding investments)		52,928 415,772
II.3.	Acquisition of long-term investments		
II.4.	Transfer of long-term investments		
II.5.	Loans granted		
II.6.	Loans recovered		
II.7.	Dividends and interest received		98,175 60,018
	Net cash flows from investing activities		(1,046,102) (19,669,019)
III.	Cash flows from financing activities		
III.1.	Cash flows related to enterprise owners:		(436) (310)
III.1.1.	Emission of shares		
III.1.2.	Purchase of own shares		
III.1.3.	Dividends paid		(436) (310)
III.2.	Cash flows arising from other financing sources		(2,378,518) 18,184,515
III.2.1.	Loans received		27,060,679
III.2.2.	Loans repaid		(1,501,968) (8,160,915)
III.2.3.	Interest paid		(764,639) (442,038)
III.2.4.	Payments of lease (finance lease) liabilities		(111,911) (265,017)
III.2.5.	Other increase in cash flows from financial activities		
III.2.6.	Other decrease in cash flows from financial items		(8,194)
	Net cash flows from financing activities		(2,378,954) 18,184,205
IV.	Net increase (decrease) in cash flows		6,809,638 (920,769)
V.	Cash and cash equivalents at the beginning of period		973,330 1,894,099
VI.	Cash and cash equivalents at the end of period		7,782,968 973,330

Director General
title of the head of enterprise
administration


(signature)

Danas Kerbelis
(full name)

**AB VILNIAUS DEGTINĖ****EXPLANATORY LETTER****General company profile**

AB Vilniaus Degtinė is an independent stock company registered on 8 May 1995 with Vilnius City Board. The official address of the Company is Panerių g. 47/2, Vilnius. Subsidiary of the Company is Obeliai distillery in Obeliai neighbourhood, Rokiškis district.

The Company is involved in the following activities: produces and sells vodka-liqueur products and other strong drinks, alimentary rectified, methylated spirit at market selling prices; produces alimentary distilled spirit.

Basis of preparation and compliance with the established standards

AB Vilniaus Degtinė prepared the financial statements for 2005 in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board and following the interpretations of the Standard Committee of International Board of Accounting Standards, except the accounting of property, plant and equipment, as required by IFAS 16.

The statements have been prepared following the principle of going concern. Financial statements have been prepared in litas. The same accounting principles were applied as last year.

Summary of accounting policies

Main accounting principles used by the Company in preparation of financial statements for 2005 are presented below.

Non-current intangible assets

Intangible assets are presented in the balance sheet at cost less amortisation and impairment, amortised over three-twenty years period using straight-line method. At the time of acquisition, the intangible assets are stated at cost.

Property, plant and equipment

Property, plant and equipment are initially stated at acquisition (production) cost; they are presented in the balance sheet at acquisition (production) cost less depreciation and impairment.

Initial value of property, plant and equipment consists of acquisition cost, including non-refundable acquisition taxes and any directly attributable costs of bringing the asset to its working condition, if these costs are material.



Following the resolutions of the Government of the Republic of Lithuania, part of property, plant and equipment were indexed according to the index rates for different asset types.

Table 1

Indexation of property, plant and equipment in 1991-1995

Indexations	Index rates
Indexation of 1 July 1991	2.2 times
Indexation of 1 March 1992	2-5 times
Indexation of 1 April 1994	1.4-14 times
Indexation of 31 December 1995	1.6-1.7 times

Property, plant and equipment of the Company acquired by 1 January 1996 are accounted at indexed value less indexed depreciation and estimated impairment loss.

Depreciation is calculated on a straight-line basis, considering the established depreciation rates of property plant and equipment. Depreciation is calculated starting from the next month after the assets were put into operation. The following rates of depreciation are applied to the property, plant and equipment:

buildings and structures	12-20 years
machinery and equipment	5-20 years
vehicles	4-10 years
other equipment, instruments, tools	5-15 years

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

Inventories

At the time of acquisition, inventories are stated at acquisition (production) cost; in the balance sheet they are presented at cost or net realisable value, depending on which of them is lower. Inventories are accounted regularly, by FIFO method. Cost of inventories consist of acquisition value, transport expenses and other expenses (500 LTL and above) incurred before their acquisition.

Impairment of assets

The carrying amount of Company's assets, except inventories and debit balance of deferred tax, is reviewed every day of preparation of financial statements to determine the indications of impairment loss. If such indications are present, the recoverable value of the assets is determined. Impairment loss is recognized when the carrying amount of the assets increases the recoverable value. Impairment loss is included into the income statement.

**Calculation of recoverable value**

Recoverable value is calculated as the higher of net realisable and value in use. Value in use is computed by discounting future cash flows to their current value by applying pre-tax discount rate representing real market assumptions regarding money value in time and risks related with the assets.

Receivables

Amounts receivable are recorded in the balance sheet at fair value, less doubtful and bad debts. Doubtful debts are recognised as such after 12 months since their occurrence. Bad debts are written off, following the order of the Minister of Finance "Regarding the nature of bad debts and proving of efforts to recover these debts and the procedure of computing the amounts of bad debts".

Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rates of litas prevailing on the date of transactions. Positive and negative result of the change of currency exchange rates (profit or loss) is shown in the income statement as the result of financial activities. Balances in foreign currencies are translated at period-end exchange rates announced by the Bank of Lithuania.

Sales

Sales revenue is recognized when it is probable that the Company will receive economic benefits associated with the transaction and when the amount of revenue can be reliably measured. Sales revenue consists of the revenue from sales of alcoholic products and other revenue related with the sales of alcoholic products. Sales are recognised in income statement net of VAT, excise tax and customer discounts.

Sales revenue is recognized when significant risk and rewards related to the ownership is transferred to the buyer.

Other operating income and expenses

Income and expenses related with other than typical operations of the Company are accounted as other operating income and expenses.

Production cost

Production cost consists of direct and indirect expenses, including depreciation, wages, fuel and electricity. Indirect expenses are distributed in proportion with the amount of production.



Cash and cash equivalents

Cash includes cash on hand and cash in banks accounts in litas and foreign currencies. Cash equivalents are short-term, highly liquid investments with maturity of three months or less. Cash balances in foreign currencies are recalculated on the balance sheet date according to official exchange rates of litas and foreign currencies announced by the Bank of Lithuania.

Income tax

The income tax for the current period consists of payable income tax and deferred taxes for the current period. Income tax is recognised in the income statement, except when it is associated with the items directly accounted in the shareholders' equity; in that case it is recognised in the shareholders equity.

Income tax payable is tax calculated on the basis of the taxable profit for the year, using income tax rate applicable on the date of financial statements.

Deferred tax is recognised only when it is expected that in the future the Company will have taxable profit, which will allow realising the tax asset. Debit balance of the deferred tax is reduced to the extent it is not expected to be realised. On the balance sheet date the Company reviews and re-evaluates the deferred tax asset and deferred tax liabilities.

Financial indicators (thousand LTL)

Table 2

Key indicators	2005	2004
Sales revenue (excl. excise tax)	47,075.9	29,347.1
Gross profit	26,544.3	13,328.5
Profit from operations (EBIT)	5,466.1	1,172.3
Profit before tax	4,479.6	976.5
Annual profit	3,857.3	1,007.3
Profit per share	0.16	0.04
Depreciation and amortisation*	3,029.3	1,969.6
Impairment of assets and bad debts	(365.4)	(1,049.2)
EBITDA	8,130.0	2,092.7
Non-current assets	36,042.0	38,378.5
Current assets	39,401.6	18,349.2
Total assets	75,443.6	56,727.7
Share capital	24,408.4	24,408.4
Equity	33,292.3	29,435.0
Non-current liabilities	15,272.7	17,743.7



Current liabilities	26,878.7	9,549.0
Net cash flows from operating activities	10,234.7	564.0
Net cash flows from investing activities	(1,046.1)	(19,669.0)
Net cash flows from financial activities	(2,379.0)	(18,184.2)
Gross profit margin (%)	56.4	45.4
Net profit margin (%)	8.2	3.4
ROE in LTL	0.12	0.03
ROA in LTL	0.07	0.03
Quick ratio	1.26	1.28
Debt and equity ratio	1.27	0.93
Net turnover of working capital (ratio)	4.42	3.40
Book value per share in LTL	1.36	1.21

*Amortisation for 2005 (1,078.5 thousand LTL) is included into operating expenses; depreciation amount of 1,283.7 thousand LTL is included into the cost of sales and 667.1 thousand LTL into operating and other operating expenses.

Amortisation for 2004 (406.0 thousand LTL) is included into operating expenses; depreciation amount of 1,180.5 thousand LTL is included into the cost of sales and 383.1 thousand LTL into operating and other operating expenses.

The analysis of key financial indicators shows that the liquidity level of the Company is rather high and it has enough liquid assets.

Gross profit margin increased by 11.0 percentage points compared to the previous financial year and amounted to 56.4 percent. This is an indication of rational marketing, correct pricing and competition policies, growth of production and sales efficiency. Growth of return on assets (ROA) by 0.04 LTL indicates more efficient use of assets.

Although the debt and equity ratio increased since last year, the value of this indicator – 1.27 – presents no threat for the creditors.

Net cash flows from operating activities amounted to 10,234.7 thousand LTL in 2005. Compared to the previous year, they increased mainly due to the increase of trade debts (after negotiating better payment terms for the Company) and budget debts.

Negative cash flows from investing activities (1,046.1 thousand LTL) resulted from the acquisition of non-current assets and interest received.

Net cash flows from financing activities (2,379.0 thousand LTL) resulted from repayment of part of the bank loans and payment of interest. During 2005, the amount of cash and cash equivalents in the Company increased by 6,809.6 thousand LTL in total.



Sales revenue

Major part of the revenue from operating activities of the Company (88.3 percent) consists of the revenue from the sales of strong drinks.

In 2005, the Company received 47,075.9 thousand LTL in revenue from operating activities. Compared to the same period in 2004, revenue from operating activities has increased by 60.4 percent. Revenue from the sales of strong drinks has increased by 53.6 percent.

Table 3

Revenue items	2005 (thousand LTL)	2004 (thousand LTL)
Revenue from the sales of strong drinks	41,580.5	27,066.5
Other revenue related to the sales of strong drinks	4,580.5	279.8
Revenue from the sales of other alcohol products	914.9	2,004.7
TOTAL	47,075.9	29,347.1

The cost of sales in 2005 increased by 28.2 percent compared to the previous financial year. Cost of sales per provisory (0.5 litre) bottle decreased by 14.3 percent compared to 2004 due to the decrease in prices of raw materials and supplementary materials. The growth of gross profit by 99.2 percent was determined by the increase in sales volumes and reduction of the cost of sales per provisory bottle.

The revenue and results of different business segments of the Company are presented in annex 1 to the Explanatory letter.

Cost of sales

Table 4

	2005 Amount (thousand LTL)	2004 Amount (thousand LTL)
Marketing services	6,200.9	3,000.5
Advertising and advertising products	4,596.1	1,252.8
Salaries, social security, guarantee fund and vacation reserve	572.4	492.1
Advertising campaigns	591.0	247.8
Transport services	310.2	169.4
Payment for using the trademark	274.8	38.1
Representation expenses	160.4	8.1
Market research	86.9	18.8
Designing of labels	65.1	-
Packaging expenses	61.6	37.6
Other	18.6	197.5
Total	12,938.0	5,462.7



Sales expenses increased 2.4 times compared to the same period of the previous year because the Company spent more on advertising, marketing services, market research, etc. in order to expand its market.

General and administrative expenses

Table 5

	2005 Amount (thousand LTL)	2004 Amount (thousand LTL)
Salaries, social security, guarantee fund, vacation reserve	3,100.8	3,905.3
Amortisation of non-current intangible assets	1,078.5	406.0
Taxes and duties	766.3	816.9
including: environmental taxes	398.8	280.0
Depreciation of property, plant and equipment	661.2	383.1
Impairments of construction in progress	362.0	-
Repairs of buildings	358.9	59.2
Security expenses	257.7	262.4
Sponsorship, allowances	249.7	169.3
Maintenance of cargo vehicles	241.5	159.2
Repair and maintenance of machinery	209.8	57.3
Consulting and audit services	170.7	57.4
Inventory, home and office supplies	97.4	72.3
Water supply and heating	92.5	85.3
Other expenses	493.3	259.8
Total	8140.3	6693.5

General and administrative expenses increased by 21.6 percent due to the increased amortisation and depreciation deductions, more expensive repairs, etc.



Other and financing activities

Table 6

	2005 (thousand LTL)	2004 (thousand LTL)	CHANGE (+,-)
Result of other activities	(326.1)	236.5	(562.7)
Result of financing and investing activities	(660.4)	(432.3)	(228.1)

Note. Taking into consideration the fact that the revenue from the sales of property, plant and equipment is immaterial, the result from the sales of property, plant and equipment is included into the result of other activities.

Result from the sales of property, plant and equipment

Revenue from the sales of property, plant and equipment amounted to 41.9 thousand LTL as of 31/12/2005:

Acquisition cost of the sold property, plant and equipment	296.2 thousand LTL
Depreciation of the sold property, plant and equipment	285.2 thousand LTL
Balance value of the sold property, plant and equipment	11.0 thousand LTL
Selling price	52.9 thousand LTL

The loss from other activities in 2005 resulted from the sales of unused supplementary materials sold at market prices.

In 2005, the Company spent 1,176.6 thousand LTL on investments, 358.9 thousand LTL – for repairing the buildings.



Result from the financing and investing activities (thousand LTL)

Table 7

Indicators	2005	2004
Revenue from financing and investing activities	103.2	
Interest income	98.2	
Foreign currency exchange gain	3.6	
Fines for overdue payments	1.4	
Expenses of financing and investing activities	763.6	432.3
Foreign currency exchange loss		3.9
Liability tax for the credit		8.2
Interest expenses	762.7	420.0
Fines for overdue payments and penalties	0.9	0.2
Result from financing and investing activities	(660.4)	(432.3)

Loss from financing activities in the amount of 660.4 thousand LTL resulted from the increase in interest on bank loans.

Income tax

Table 8

	2005 (thousand LTL)	2004 (thousand LTL)
Income tax payable	128.3	41.3
Deferred income tax expense/ (income)	494.0	(72.2)
Income tax for the year	622.3	(30.9)

Since the deferred income tax expense recalculated according to the social security rates are immaterial, and the temporary differences between the profit for accounting and tax purposes will gradually decrease and the remaining part will disappear after the year 2007, the deferred income tax expense (income) was calculated on the basis of 15 percent income tax rate.



Non-current assets

Movements of property, plant and equipment (thousand LTL)

Table 9

	Buildings and structures	Machinery and equipment	Vehicles	Other equipment	Construction in progress	Other PPE	Total
Balance as of 31/12/2004	6,172	4,869	248	731	7,057	3	19,081
1. Property, plant and equipment at cost							
Acquisition cost as of 31/12/2004	3,333.7	11,744.5	1,028.0	1,602.1	402.2	3.2	18,113.7
Revaluation as of 31/12/2004	7,689.8	1,959.3	113.9	131.2	6678.7		16572.9
Changes for the year:							
- additions 2005	148.1	681.9	113.5	120.2	34.8	20.7	1,119.2
- disposals 2005 (-)		-204.4	-65.6	-26.2			-296.2
- retirements 2005 (-)		-1,367.6		-103.7	-25.5		-1,496.8
- reclassifications +/-(-)	3,459.7	-523.7		583.5	- 3,462.9	-3.2	53.4
Acquisition cost as of 31/12/2005	3,820.5	10,806.3	1,076.8	2,052.8	70.3	20.7	17,847.4
Revaluation as of 31/12/2005	10,810.8	1,483.7	113.0	254.3	3557.0		16,218.8
3. Depreciation of property, plant and equipment							
Accumulated depreciation 31/12/2005	5,495.2	7,962.4	897.1	1,609.7			15,964.4
4. Impairment loss							
Impairment loss as of 31/12/2004					24.3		24.3
Changes for the year:							



- impairment loss in 2005					362.0		362.0
- impairment of disposed assets in 2005 (-)							
- impairment of retired assets in 2005 (-)					-24.3		-24.3
Impairment loss as of 31/12/2005					362.0		362.0
Balance as of 31/12/2005	9,136.1	4,327.6	292.7	697.4	3,265.3	20.7	17,739.8
Useful service life in years	12-20	5-20	4-10	5-15	-		

As of 1 January 2005 the Company had unused or partially used property, plant and equipment (construction in progress) with carrying value of 7,057 thousand LTL. Construction in progress was related with the construction of soft drinks production facilities in Vilnius. Strategic plans of the Company changed and this construction came to stop in 1994. The completion of the building is 96 percent. In 2005, the company completed part of the construction in progress and put it into operation. At the end of the year, the value of the unused remaining part of the construction in progress amounting to 362 thousand LTL was reduced. Also, at the end of the year, development project works of Obeliai distillery in the value of 24.3 thousand LTL were written off as they were not expected to be used.

Last financial year (2004), upon the request of the main shareholder, for the purposes of consolidation, in the financial statements presented to the shareholder, the Company established useful life of the buildings of 20 years. In 2005, having reviewed the useful lives of the buildings, the Company recalculated the depreciation of the buildings for the period of 19 years for the purpose of consistency in the financial statements. Due to this recalculation balance value of property, plant and equipment and taxable profit decreased by 489.7 thousand LTL.

Fully depreciated property, plant and equipment in use

Table 10

Asset group	Cost (thousand LTL)
Buildings	480.3
Machinery and equipment	1,579.9
Vehicles	818.1
Other equipment, instruments, and tools	573.3
Total	3,451.6



Movements of non-current tangible assets

Table 11

Non-current intangible assets (Lt)	Development works	Patents, licences, etc.	Software	Total
Balance as of 31/12/2004		18,625.0	219.1	18,844.1
1. Non-current intangible assets at cost				
Acquisition cost as of 31/12/2004		19,124.3	565.6	19,689.9
Changes for the year:				
- additions 2005		27.6	50.4	78.0
- disposals 2005 (-)				
- retirements 2005 (-)		-1.4	-83.4	-84.8
Acquisition cost as of 31/12/2005		19,150.5	532.6	19,683.1
2. Amortisation of non-current intangible assets				
Accumulated amortisation 31/12/2004		499.3	346.5	845.8
Accumulated amortisation 31/12/2005		1,460.1	379.4	1,839.5
3. Impairment loss				
Impairment loss as of 31/12/2004				
Impairment loss as of 31/12/2005				
Balance as of 31/12/2005		17,690.4	153.2	17,843.6
Amortisation period in years		3-20	3	

Non-current intangible assets and property, plant and equipment of the Company decreased because the additions to the non-current assets were less than the depreciation and amortisation.

**Inventories (thousand LTL)**

Table 12

Indicators	Raw materials and assembly items	Production in progress	Finished products	Goods for resale	Total
a) Inventories at cost					
at the end of previous year	5,242.7	49.4	1,183.4		6,475.5
At the end of the year	4,845.0	78.6	708.0		5,631.6
b) Net realisable value allowance (reversal) at the end of previous year	-444.0				-444.0
At the end of the year	-124.4				-124.4
c) Net realisable value at the end of year (a) - (b)	4,720.6	78.6	708.0		5,507.2
Mortgaged inventories (at net realisable value)	4,720.6	78.6	708.0		5,507.2
Inventories held with the third persons	338.0				338.0

Net realisable value allowance for the inventories decreased because the Company used part of them in the production and sold the rest.

Compared to the previous year, inventories have not changed significantly.

**Current receivables (1)**

Table 13

Trade receivables	As of 31/12/2005 (thousand LTL)	As of 31/12/2004. (thousand LTL)
Trade receivables, gross	25,728.4	12,343.3
Doubtful trade receivables in the beginning of the year (-)	(1,696.5)	(1,696.5)
Change in doubtful trade receivables (+,-)	304.4	-
Doubtful trade receivables at the end of the year (-)	(1,392.1)	(1,696.5)
Trade receivables at the end of the year, net	24,336.3	10,646.8

Compared to the previous year, trade receivables increased 2.3 times due to the increased sales volumes and extension of the payment terms. There were no trade receivables (net) overdue more than 30 days as of 31/12/2005.

Current receivables (2)

Table 14

Other receivables	As of 31/12/2005 (thousand LTL)	As of 31/12/2004. (thousand LTL)
Other receivables, gross	6,412.8	5,461.3
Doubtful receivables in the beginning of the year (-)	(4,889.9)	(4,889.9)
Change in doubtful receivables (+,-)	79.2	-
Doubtful receivables at the end of the year (-)	(4,810.7)	(4,889.9)
Other receivables at the end of the year, net	1,602.1	571.4

There were no other receivables (net) overdue more than 30 days.



Cash and cash equivalents

Table 15

	2005 (thousand LTL)	2004 (thousand LTL)
Cash in bank and on hand	432.0	973.3
Term deposits with maturity up to three months	7,351.0	-
Total	7,783.0	973.3

Structure of the share capital

Table 16

Indicators	Number of shares	Amount (thousand LTL)
The structure of share capital at the end of the year		
1. By share type		
1.1. Ordinary shares	24,408.4	24,408.4
1.2. Preferred shares		
1.3. Employee shares		
1.4. Special shares		
1.5. Other shares		
TOTAL:	24,408.4	24,408.4
2. Public and municipal capital	-	-
Own shares held by the Company	-	-
Shares held by subsidiaries	-	-



As of 31 December 2005, the share capital of the Company was 24,408.4 thousand LTL. The nominal value per share was one litas. As of 31 December 2005, "Sobieski Dystrybucja Sp. Z. o. o" held 21,550,318 ordinary registered shares (88.3 percent). The remaining 11.7 percent of the share capital belonged to natural and legal persons.

Profit distribution project

Table 17

Items	Amount (thousand LTL)
Retained earnings (deficit) at the end of the previous financial year	(7,455.1)
Net result for the year – profit (loss)	3,857.3
Transfers from reserves	10,040.7
Distributable profit (loss) at the end of the year	6,443.0
Shareholders' contribution to cover the loss	
Transfers from reserves	
Distributable profit	
Profit distribution:	
- to legal reserves	
- to other reserves	
- dividends	
- other	
Retained earnings (deficit) at the end of financial year	6,443.0



INFORMATION ABOUT THE BALANCE OF THE LOANS GRANTED TO AB VILNIAUS DEGTINĖ BY VILNIUS BRANCH OF BAYERISCHE HYPO-UND VEREINS BANK AG

Table 18

TYPE OF LOAN	CURRENCY	BOOK VALUE (31/12/2005) (thousand LTL)	LOAN MATURITY
Medium-term credit	EUR	375.5	15/03/2006
Long-term credit	EUR	17,022.3	15/03/2011
Overdraft	LTL	-	
TOTAL		17,397.8	

As of 31 December 2005, financial liabilities to the credit institution amounted to 17,397.8 thousand LTL (17,022.3 thousand LTL of long-term credit and 375.5 thousand LTL of medium-term credit).

In 2005, AB Vilniaus Degtinė repaid 1,502.0 thousand LTL of the medium-term credit.

During the reporting period the Company repaid 111.9 thousand LTL according to the financial lease agreement to UAB SEB VB Lizingas. As of 31 December 2005, leasing liabilities amounted to 35.3 thousand LTL.

State of Company's liabilities (thousand LTL)

Table 19

Indicators	Outstanding borrowings or their portions		
Payables by type	Within one year	After one year, but no later than within five years	After five years
Financial borrowings: (including those from subsidiaries and associated companies)	2,964.2	14,469.0	
1. Leasing (financial lease) or similar liabilities	35.3		
2. To credit institutions			



3. Other financial borrowings	2,928.9	14,469.0	
Trade payables	8,948.7		
Prepayments received	104.8		
Income tax liability	21.9		
Labour-related liabilities	439.3		
Deferred income tax liability	803.7		
Other payables and liabilities	14,399.7		
TOTAL	27,682.3	14,469.0	

Trade payables increased 3.5 times compared to the previous year due to the increased production volumes and negotiated better terms of payment for the products.

Table 20

Other payables and liabilities	2005 thousand LTL	2004 thousand LTL
Excise tax	11,877.3	2,807.2
VAT	2,405.2	1,639.0
Other taxes	27.0	318.2
Other payables	90.2	118.6
Total	14,399.7	4,883.0

Other payables and current liabilities increased because the amount of taxes increased (due to the bigger production volumes) and the term of payment of the excise tax (5,848.2 thousand LTL) for the 2nd decade of December 2005 was moved to 3 January 2006.



To secure the repayment of the overdraft, medium- and long-term credits granted by Vilnius branch of Bayerische Hypo- und Vereinsbank AG the following assets were pledged as of 31 December 2005:

Pledged assets of the Company

Table 21

Pledged assets	Balance (actual) value of the assets 31/12/2005 (thousand LTL)	Basis for pledging the assets
1. Buildings and structures	11,526.5	Credit agreement of 08/04/2004 (with amendments and supplements)
2. Equipment	2,450.1	
3. Property right – (claim rights from the licence agreement regarding trademarks, indicated balance value of the trademarks)	17,652.8	
4. Property right – right to lease land sites	-	
5. Cash in the bank account at Vilnius branch of Bayerische Hypo- und Vereinsbank AG	7,732.9	
6. Inventories	5,507.2	
Total	44,869.5	

Other liabilities and guarantees

1. Written covenant issued to the State Tax Inspectorate to secure the execution of tax liabilities of an owner of excise warehouse (amount of the liability – 7,100 thousand LTL).

2. Long-term guarantee issued to LNVA Linava and funds deposited in the bank AB Vilniaus Bankas (deposited amount – 23.3 thousand LTL (8 thousand USD)) in connection with the admission to TIR customs system.

3. Three long-term guarantees issued to the National Payments Agency under the Ministry of Agriculture of the Republic of Lithuania and funds deposited at Vilnius branch of Bayerische Hypo- und Vereinsbank AG (deposited amount – 2.6 thousand LTL) for the import licence.

4. Cash deposit paid in to the account of State Tax Inspectorate of Vilnius County to secure the execution of tax liabilities related with export (deposited amount – 172.5 thousand LTL).



RELATED PARTY TRANSACTIONS

Table 22

	2005 (thousand LTL)
Purchases from related parties	6,857.9
Sales to related parties	32,451.2*
Receivables from related parties	16,438.0
Payables to related parties	3,536.1

*The amount is excluding excise tax and VAT.

There were no related party transactions at other than market prices.

Employees

In 2005, average number of Company's employees was 209. Compared to 2004 (229 employees) the average number of employees decreased by 8.7 percent or 20 persons.

Breakdown of personnel expenses

Table 23

	2005 (thousand LTL)	2004 (thousand LTL)
Salaries	3,663.6	3,951.3
Social security and guarantee fund	1,158.0	1,324.6
Total:	4,821.6	5,275.9
Average provisory number of employees	197.1	207
Average expenses per employee	2.04	2.12

In 2005, personnel expenses decreased by 454.3 thousand LTL due to the reduced number of employees and fewer redundancies.

Information about the education and average salaries of the employees is presented in annex 2.



Financial relations with the management and other related parties

Table 24

Indicators	2005 (thousand LTL)	2004 (thousand LTL)	Balance at the end of the year
A. Labour-related payments calculated during the year to:			
1. the management	383.6	447.2	-
2. other related persons			
B. Loans granted to:			
1. the management			
2. other related persons			
C. Loans received from:			
1. the management			
2. other related persons			
D. Property and gifts given free of charge to:			
1. the management	0.3	-	X
2. other related persons			
E. Various guarantees granted on behalf of the Company to:			
1. the management			
2. other related persons			
F. Other material amounts calculated during the year to:			
1. the management	40.9	-	-
2. other related persons	63.2		
G. Other material liabilities to the Company assumed by:			
1. the management			
2. other related persons			
H. assets sold to:			
1. the management	-	-	X
2. other related persons			
Average number of managers per annum	4	4	X



AB Vilniaus Degtinė prepared its financial statements for 2005 according to the International Accounting Standards. The Company recalculated all comparative information according to these standards as well. Therefore, 1 January 2004 is considered the date when the Company switched to IFRS.

Due to the transition to the International Accounting Standards, the following changes are reflected in the financial statements of the Company for 2004:

1. Because of the deferred income tax asset and liability the total assets and equity, and total liabilities in the balance sheet increased by 433.7 thousand LTL each, the profit for 2004 increased by 72.2 thousand LTL, retained earnings for the previous year – by 50.9 thousand LTL.
2. When the income tax in the income statement was reduced by 72.2 thousand LTL, the profit for 2004 increased by the same amount.

General director Danas Kerbelis

Information on business segments

Indices	SEGMENTS (LTL)									
	Alcohol		Edible rect. et. alc.		Denat.ethyl alc.		Other products & services		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Sales income	41580457	27065293	770646	1703839	143224	152944	4581586	425013	47075913	29347089
Sales cost-price	19941870	14638466	501956	1136541	83211	109877	4551	133713	20531588	16018597
Gross profit	21638587	12426827	268690	567298	60013	43067	4577035	291300	26544325	13328492

In 2005, the Company sold its alcohol products to EU member-states for the amount of LTL 626.2 thous., or 1.5% of overall production
 In 2004, 0.9% of overall production went to duty-free shops, and 0.2% - to EU member-states

Information on education and average salary of the Company's employees

Groups of employees	No. of emp. 2005 12 31	Education					Average salary (LTL) in 2005	Average salary (LTL) in 2004	Comp. %
		higher	post-second	vocational s.	secondary	incomplete sec.			
1. Management	4	4					6,254.60	7,284.20	85.9
2. Specialists and officers	54	25	21	2	6		2,201.61	1,734.04	127.0
2.1. Including: Obelai plant	12	3	7		2		1,748.11	1,631.03	107.2
3. Workers	160	11	30	43	65	11	1,344.69	1,323.15	101.6
3.1. Including: Obelai plant	39	3	7	15	11	3	1,253.01	1,219.31	102.8
Total:	218	40	51	45	71	11	1,667.92	1,574.12	106.0



PERFORMANCE REPORT 2005 OF AB "VILNIAUS DEGTINĖ"

AB "Vilniaus degtinė" is an independently incorporated stock company, registered at the Vilnius City Board on the 8th May 1995. The company is located at Panerių 47/2, Vilnius. The company has a branch, Obeliai distillery, which is situated in Obeliai Local Authority, Rokiškis district.

The Company produces and sells vodka and liqueur products, other strong drinks, edible rectified, denaturated ethyl alcohol, and produces edible distilled ethyl alcohol.

As of the 31st December 2005, the Company's authorised capital amounted to LTL 24,408.4 thousand, par value of one share – one (1) Litas. As of 31st December 2005, "Sobieski Dystrybucja Sp. Z. o. o" was the owner of 21,550,318 ordinary registered shares (88.3%) of the Company. Individuals and entities owned the remaining 11.7% of the share capital. All shares of AB "Vilniaus degtinė" are listed on the stock exchange. Securities of the Company are included into the Current Trade List of AB "Vilniaus vertybinių popierių birža" (Vilnius Stock Exchange). AB "Vilniaus degtinė" has signed an agreement with AB FMĮ "Finasta" on accounting of securities issued by the Company and periodical reporting thereon.

Management bodies of the Company: Supervisory Board (T.Kowalski, D.Jamiola, R.Plungaitė), Board (of Directors) (chairman D.Žaromskis, deputy R.Čičirka, members A.Galuška, M.Šulčys, P.Januševičius). The Board has been basing its activities on the Statute approved by the General Shareholder Meeting and Service Regulations approved by the Board.

Within the year under report, the Company's Board was working steadily, and was promptly solving all corporate issues. In 2005, 2 meetings of the Supervisory Board and 14 meetings of the Board were held. Strategic corporate issues related to consideration of the production program, investment plans, and results of financial operations were discussed at the meetings.

Production Operations

Obeliai distillery, a branch of AB "Vilniaus degtinė", produces edible distilled ethyl alcohol out of rye. The raw ethyl alcohol is delivered to AB "Vilniaus degtinė" for rectification and further processing. According to its plans for the year 2005, the Company went on developing selection of farms, signing long-term agreements on raw stuff purchase with the farms cultivating and supplying rye for making ethyl alcohol suitable for the SOBIESKI vodka. In July 2005, the plant was not working, as it was undergoing current repairs of production, grain storage units and the boiler room.

Comparison of performance of the alcohol distillery (2004-2005)

No.	Name	2005	2004	Comparison, %
1.	Ethyl alcohol produced, LPA	2839705,963	2482488,127	+14



Analysis of production extent and range (compared to the year 2004):

Product range	2005		2004		Comparison: 2005 vs. 2004 %	
	Production extent, thous.ltr	Product range, pcs.	Production extent, thous.ltr	Product range, pcs.	Production extent, thous.ltr	Product range, pcs.
Vodka	4,751.44	20	3,587.75	24	132.43	83
Flavoured vodka	1,282.76	3	0	0		
Bitter and sweet kinds of brandy	1,204.57	10	1,086.45	11	110.87	90
Gin	29.55	1	8.92	1	3.3 time	100
Liqueurs	165.55	5	137.80	5	120	100
Incl. cream liqueurs	111.94	2	97.4	2	114.92	100
Scotch whisky	2.50	1	6.48	1	38.58	100
Total:	7,436.39	42	4,827.42	44	154.04	95
Out of total qnt, new products. thous. ltr	1,282.76	3	331.5	4	3.8 time	

Three new products were developed and mastered by the production unit in the year under report: flavoured vodka "Sobieski su spanguolėmis" (Sobieski with cranberries), "Sobieski su pipirais ir medumi" (Sobieski with chili and honey) and "Sobieski su mandarinais" (Sobieski with mandarins); a trial batch of the "Krolevska" vodka intended for export to EU countries has been made. Mastering of flavoured vodka products turned to be satisfying the Company's expectations – the products became popular and saleable. Annual output of flavoured vodka production amounted to 21.2% of the total amount of vodka made by the Company, and in the 2nd half-year it made even 33%.

In 2005, technological process improvement facilities were implemented, machinery was renewed, organization of work and use of capacity of the production machinery was improved, which resulted in undertaking production of new products, improvement of the production quality, and reduction of production-related losses.

The following means of process optimisation, automation and mechanization were implemented:

- *Automatic water deironing system was implemented and the process of water softening has been improved in the water preparation unit, internal repairs of the premise were carried out.* That enabled the Company to use its material resources more cost-effectively – consumption of edible salt for preparation of 1 m³ of water dropped twice, working conditions and sanitary state of the premises have improved, and labour-intensiveness was reduced.
- *New vodka filtration system was assembled and mastered in the vodka preparation unit.* The additional system enabled the Company to completely separate the technological flow of preparation of the "Sobieski" vodka from flows of other products made in that shop.
- *Two new mixing reservoirs were assembled and mastered in the liqueur, bitter & sweet kinds of brandy and intensely flavoured vodka preparation unit, improved filtration system with an additional filtration-press machine was implemented, and the process of product mixing and filtration was improved.* This measure enabled the Company to use



previously installed machinery better, to save working time and material resources, and increase the number of products made in this shop.

Production of three new products – “Sobieski su spanguolėmis”, “Sobieski su pipirais ir medumi” and “Sobieski su mandarinais” was mastered. Quite many organizational means have been employed to implement production of the aforementioned kinds of vodka: recipes of the strong drinks were developed, the right kinds of cranberries, chilli and mandarins and the proper way of their storage were chosen. The process of fruit preparation and bottling has been modelled. A range of organizational and technological means for selection of raw materials, product mixing, preparation-filtration, and seasoning has been implemented. New workplaces have been created for the purpose of execution of the aforementioned processes.

- *A new bottling-capping machine was implemented in the bottling shop.* Implementation of a new automatic bottling-capping machine for the products sold in 0.25 l bottles enabled the Company to bottle additional 600 thousand litres of products per annum with the same labour force.
- *A new compressor for pressurised air supply was implemented.* It improved the quality of supplied air, which resulted in increased quality of the vodka that is mixed with pressurised air, reduction of maintenance and air filtration costs.
- *All meters of accounting filled-in bottles in the bottling shop were replaced with new and modernised ones.* This mean has enabled the Company to fully control accounting of bottles, and implement a new bottle accounting program.
- *Bottle numbering machines were moved to another place.* The machines were mounted in another place along the bottling line, which resulted in high-quality and visible spraying of the batch number on the caps.
- *Computer-aided business accounting program Axapta was installed.* It enables prompter management of production processes, accounting of material resources and optimum number of leftover.

The entire documentation of the quality management system was revised and altered considering the existing situation. All other production technology and standard documents were updated. Alcohol production process procedures were altered and supplemented, recipes of products were revised, and monitoring of material resource consumption quantities was started.

Working conditions of employees have been improved, repairs of personnel facilities of the liqueur and bitter & sweet kinds of brandy preparation shop were done, and partial repairs of the premises were carried out in the bottling shop and the liqueur and bitter preparation shop.

All those means enabled to Company to improve the use of production capacities and production quality, as well as to ensure cost-effective use of material resources. In 2005, production capacities grew by 54%, compared to 2004.

In 2005, major investments (LTL 1,176.6 thousand) we used as follows:

- Acquisition of technological machinery – LTL 681.9 thousand;
- Capital development – LTL 182.3 thousand;
- Acquisition of intangible assets – LTL 78.1 thousand;
- Acquisition of other assets – LTL 234.3 thousand.



Production Sales and Marketing Activities

In 2005, 7,575.8 thousand litres of strong drinks were sold. Compared to 2004, production sales grew by 59.5% (in 2004, sales reached 4,748.6 thousand litres).

	2005		2004		Compared to 2004, %
	thous.ltr	% of total sales	thous. ltr	% of total sales	
Total sales	7575,8	100,00	4748,6	100,0	159,5
including:					
Vodka	6137,1	81,01	3524,6	74,2	174,1
Bitter kinds of brandy	581,5	7,68	529,8	11,1	109,8
Sweet kinds of brandy	646,2	8,53	538,8	11,4	119,9
Liqueurs	169,1	2,23	137,9	2,9	122,6
Vilnius gin	27,4	0,36	11,4	0,3	2,4k
Scotch whisky	3,4	0,04	5,7	0,1	59,6
Wine	11,1	0,15			

In 2005, sales of vodka made the largest part of total sales – 6,137.1 thousand litres or 81.01% of the total production. Sales of bitter kinds of brandy amounted to 581.5 thousand litres (7.68%), sweet kinds of brandy – 646.2 thousand litres (8.53%), liqueurs – 169.1 thousand litres (2.23%), and Scotch whisky – 3.4 thousand litres (0.04 %).

Major part of vodka sales falls on the "Bajorų" vodka – 19.2%, followed by "Sobieski" – 14.3%, "Čepkelių" sweet brandy – 6.6%, "Bajorų Premium" – 5.0% of overall sales. Sales of new products, the production of which was started within the period under report, were as follows: sales of the "Sobieski su spanguolėmis" vodka amounted to 11.9% of overall sales, followed by "Sobieski su pipirais ir medumi" – 4.9%, and "Sobieski su mandarinais" – 2.0%. The Company has discontinued production of unsaleable products, such as the "Lietuviška grynoji" and "Kedrinė" vodka. Moreover, in 2005, the following kinds and amounts of vodka were exported to Poland: "Vodka Wilenska" – 46.3 thousand litres, "Senasis Vilnius" – 4.1 thousand litres and bitter "Balzam Wilenski" – 32.2 thousand litres.

Considering the increasing competition and reduction of prices of many imported strong drinks after Lithuania joined the EU, the Company, aiming at taking the leading position in the market, implemented "Sobieski", "Bajorų Premium", "Karvedys" brand image and sales promotion strategy, carried out public relations campaign and other related issues with the help of the advertising agencies UAB "Video reklamos studija", UAB "Video reklamos studijos agentūra", UAB "Revanda", etc. Moreover, some funds were allotted to advertise the sweet brandy "Čepkelių", bitter brandy "Vilniaus starka", liqueur "Daug su brendžiu", etc. Investments into unconventional marketing measures, such as music CD "Sobieski Uogos" and sponsorship of cultural events, took place.

Total amount allotted to alcohol advertisement, sponsorship and sales promotion activities within the year under report made LTL 4,374.3 thousand.

At the end of 2005, the Company's market share reached almost 32% of the vodka market, while at the end of 2004 it was only 18%. At the end of 2005, the Company's share in the market of sweet and bitter kinds of brandy was approx. 22.5%.



Procurement of Raw Stuff and Materials in 2005

In 2005, the Company got in supplies of all raw stuffs and materials necessary for the production. Before signing contracts on supply of raw stuffs and materials, suppliers were chosen considering the best terms with regard to price and quality, which was followed by negotiations with chosen suppliers.

After Lithuania has joined the EU, raw stuff and material procurement takes place in accordance with the existing EU procedures.

In 2005, in accordance with signed contracts, cream liqueur concentrate was bought from the Netherlands, brandy from Azerbaijan, and wine from the Ukraine. Other auxiliary materials necessary for the production were purchased as follows:

- Bottles for major production – from AB "Panevėžio stiklas" (the most acceptable supplier with regard to price, quality, supply and payments terms);
- Bottles for souvenir production were being purchased in Germany, Poland, Czech Republic, and France (purchasing from one source, as they are not made anywhere else);
- Caps – from foreign suppliers (the most acceptable supplier with regard to price, supply and payments terms);
- Label, label glues (the most acceptable local suppliers with regard to price, quality, supply and payments terms);
- Materials, machinery parts, construction materials for repairs, household supplies, and office supplies were being purchased under the application forms provided to the procurement department.

Procurement department compiles a list of acceptable suppliers, analyses information on supplied products, i.e. their quality, price, and monitors fulfilment of supply-related obligations.

Economic-Financial Status

Income from sales of alcohol makes the major part (88.3%) of comparative weight of the Company's principal activities.

In 2005, the Company's income from its principal activities amounted to LTL 47,075.9 thousand. Compared to the same period in 2004, income from principal activities grew by 60.4%. In 2005, income from sales of alcohol increased by 53.6%.

Income articles	2005 (LTL thous.)	2004 (LTL thous.)
Income from alcohol sales	41,580.5	27,066.5
Other income related to sales of alcohol products	4,580.5	279.8
Incomes from sales of other alcohol products	914.9	2,004.7
Total	47,075.9	29,347.1

Growth of gross profit was conditioned by decrease of the cost-price per bottle due to increase of sales extent. Sales-related operating expenditure, compared to the same period in 2004, grew by 2.4 time, as the Company allotted more funds to advertising, marketing, market survey, etc. for market expansion purposes. General and administrative operating expense increased by 21.6% due to increased amortisation deductions and depreciation, as well as increased repair costs, etc.



	2005 (LTL thousand)	2004 (LTL thousand)	Change (+/-)
Result of other activities	(326,1)	236,5	(562,7)
Result of financial and investment activities	(660,4)	(432,3)	(228,1)

In 2005, losses related to other activities emerged having sold unusable auxiliary materials at the market price. Loss of financial activities amounting to LTL –660.4 thousand emerged due to increase of calculated income on bank credits.

EBIT amounted to LTL 4,479.6 thousand, net profit of 2005, compared to 2004, grew by 4.5 time and amounted to LTL 3,857.3 thousand.

Draft distribution of profit obtained in 2005 in 2006

Results of 2005:

Articles	Amount (LTL thous.)
Unappropriated result – profit (loss) – at the end of the previous year (31.12.2004)	(7,455.1)
Net result of the financial year – profit (loss)	3,857.3
Transfers from reserves	10,040.7
Appropriated result – profit (loss) – at the end of financial year	6,443.0
Shareholder contributions to cover losses	
Transfers from reserves	
Profit available for distribution	
Distribution of profit:	
- Legal reserves	
- Other reserves	
- Dividends	
- Other	
Unappropriated result – profit (loss) – at the end of financial year	6,443.0

State of Settlements

In 2005, amounts receivable within one year grew by LTL 14,720.26 thousand, compared to 2004, including LTL 13,689.54 thousand of trade debtors, which increased due to the growth of sales extent and extension of payment terms. Other amounts receivable grew by LTL 1,030.71 thousand.

Amounts payable and liabilities within the year under report increased by LTL 14,858.63 thousand, compared to 2004, including long-term financial debts under long- and medium-term credits provided by Vilnius Branch of Vereins-und Westbank AG. Long-term credit (EUR 4,930 thousand) was used to acquire licenses, and medium-term credit (EUR 543.8 thousand) – to complement circulating funds. As of the 31st December 2005, the Company hasn't used the credit line (overdraft) provided by Bayerische Hypo- und Vereinsbank AG. Other amounts payable and current liabilities increased due to the fact that higher amount of taxes (due to increase of sales extent) was applied and due to transfer of payment of the excise duty (LTL 5,848.2 thousand) for the 2nd decade of December 2005 to the 3rd of January 2006. Amounts payable to trade creditors increased by 3.5 time, compared to the previous year, as a result of the growth of sales extent and more favourable settlement terms agreed with trade



creditors. As of 31st December 2001, the Company's assets valued at LTL 44,869.5 thousand were mortgaged to secure repayment of overdraft provided by Vilnius Branch of Bayerische Hypo- und Vereinsbank AG, and medium- and long-term credits. As of the 31st December 2005, financial liabilities to credit institutions amounted to LTL 17,397.8 thousand (including LTL 17,022.3 thousand under long-term credit and LTL 375.5 thousand under medium-term credit). In 2005, AB "Vilniaus degtinė" repaid LTL 1,502.0 thousand under the medium-term credit. Within the period under report, LTL 111.9 thousand were repaid to UAB "SEB VB lizingas" under financial leasing agreement. Leasing liabilities as of the 31st December 2005 amounted to LTL 35.3 thousand.

Analysis of major financial ratios shows that the Company's level of liquidity is rather high, and it has enough liquid assets. Compared to the previous financial year, general profitability ratio grew by 11.0 per cent points and reached 56.4%, which indicates rational marketing, the right price and competition policy orientation, and growth of production output and sales. Growth of ROA by LTL 0.04 demonstrates more profitable use of assets. Even though the ratio of liabilities and ownership grew, compared to the previous financial year, the ratio at the level of 1.27 does not endanger the Company's creditors.

In 2005, net cash flows from principal activities amounted to LTL 10,234.7 thousand. Compared to the previous year, their growth was mostly determined by increase of trade creditors (having agreed on more favourable settlement terms) and indebtedness to the budget.

Negative cash flows from investment activities (LTL 1,046.1 thousand) have formed due to acquisition of fixed assets and received interest. Negative cash flows from financial activities (LTL 2,379.0 thousand) have formed after partial repayment of loans and payment of interest to the bank. All in all, in 2005, amount of cash and cash equivalents in the Company grew by LTL 6,809.6 thousand.

Social Issues

In 2005, average number of staff members decreased by 20 employees, compared to 2004. In 2005, average number of staff members was 209, including average number of staff members at Obeliai distillery amounted to 50.

In 2005, average salary amounted to LTL 1,667.92 and increased by 6%, compared to 2004, due to the increase of salaries that took place in July 2005.

Employees of the Company were sent to various seminars and courses to improve their qualification/skills. In 2005, 5 employees of the Company obtained higher education at extramural studies. 13 employees are continuing their studies in 2006.

Business Operations Plans and Forecasts

Production program for the year 2006, thousand litres

Vodka products	7,248.1
Bitter and sweet brandies	1,361.7
Liqueurs	153.3
Gin	39.7
Scotch whisky	2.4
Total	8,805.2



According to the approved production program for 2006, it is expected to increase sales extent by 22%, compared to 2005.

Goals and tasks for 2006:

- Continue improving the technological production process, the product range and product quality, and implement production of new products;
- Expand non-denaturated ethyl alcohol storage space by building two reservoirs of 100 m³, which would enable to Company to accumulate necessary quantity of various kinds of ethyl alcohol that would be properly used for development and production of various new products of different taste;
- Expand capacities of the liqueur, bitter and sweet kinds of brandy, and intensely flavoured vodka shop from 2 million litres per annum to 6 million litres per annum;
- Replace one depreciated bottling-capping machine with a new one, which would enable using more varied package sizes, improve capping of the production and increase bottling capacities.

It is intended to replace a range of other depreciated machinery (banderol-gluing, product marking machinery, means of transportation, etc.). That will result in improved working conditions, product quality, and better use of production capacities.

Increasing competition among local strong drink producers and increasing sales of imported production in the domestic market determined the Company's intentions to concentrate its efforts on consumer-oriented advertisement of mass production. Major attention in Lithuanian market will be paid to development of the existing brands – Sobieski, Bajorų, Karvedys.

Development of export will be another priority goal for this year. Export to Poland started in the previous year will be intensified, and it is expected to expand the Company's export markets to Latvia, France and Bulgaria. What concerns foreign markets, it is expected to concentrate mainly on bitter and sweet kinds of brandy, but the brand family will certainly have at least one kind of vodka in it.

Considering that the market is ambiguous and it is rather difficult to forecast possible changes, it is expected to develop several brands in parallel this year.

According to the results of two first months of 2006, the chosen sales and marketing strategy turns to be efficient. Production sales within the first months of the current year amounted to 1,637.3 thousand litres, which is 145.2% more than within the same period in 2005. Sales income increased by 135.8% and amounted to LTL 9,106 thousand.

Chairman of the Board

Darius Žaromskis