

AB “VILNIAUS DEGTINĖ”

Annual Prospectus – Report 2005



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I. GENERAL PROVISIONS

1. Reporting period covered by this Annual Prospectus– Report

The Annual Prospectus–Report is drawn up for the year 2005

2. Main data about the issuer

Name of the company	Public company <i>VILNIAUS DEGTINĖ</i>
Code	1200 57287
Authorised capital	LTŁ 24 408 431
Address	Panerių St. 47/2, LT-03202 Vilnius
Telephone	(+370~5) 233 08 19
Fax	(+370~5) 231 50 52
E-mail address	vd@degtine.lt
Internet website	www.degtine.lt
Legal and organisational form	Legal person of a limited liability; public company
Date and place of registration	8 May 1995; Register Service at Vilnius Municipality
Register, in which data about the company are stored	Register of Legal Persons

3. Type of the issuer’s principal activities

AB “Vilniaus degtinė” is one of the companies in the manufacturing industry.

The Company manufactures and sells different types of vodka and liqueurs, other spirit drinks, rectified grain ethyl alcohol and distilled ethyl alcohol.

4. Information about where and how one can access the Report, supporting documents and the designation of the means of mass media to make information public

The Report and other documents, on the basis whereof it has been drawn up may be accessed every working day from 8 a.m. to 4 p.m. at the Company’s registered office at Panerių St. 47/2, Vilnius and at the financial brokerage firm AB “Finasta”, Konstitucijos Ave. 23, Vilnius.

The means of mass media for public announcements of AB “Vilniaus degtinė”: the daily “Lietuvos Rytas” and the Lithuanian News Agency ELTA.

5. Persons responsible for the accuracy of the information in the Report:

5.1. The issuer’s employees and the Head of the Administration:

Danas Kerbelis, Director General, tel. (+370~5) 233 08 19, fax. (+370~5) 231 50 52

Audra Jauniškienė, Finance and Administration Director, tel. (+370~5) 213 31 52, fax. (+370~5) 231 50 52

Audronė Šulgaitė, Senior Financier, tel. (+370~5) 233 09 23, fax. (+370~5) 231 50 52

5.2. The Annual Prospectus – Report was drawn up by Asta Krušnauskaitė, corporate advisor of the financial brokerage firm AB “Finasta” (Konstitucijos Ave. 23, Vilnius, tel. (+370~5) 278 68 44, fax. (+370~5) 210 24 74), on the basis of the information provided by the issuer.



6. Declaration by the members of the issuer's managing bodies, employees, the Head of the Administration and the issuer's consultants that the information contained in the Report is in accordance with the facts and that the Report makes no omission likely to have an effect on the investors' decision concerning purchase, sale or valuation of the issuer's securities or on the market price of these securities.

AB “Vilniaus degtinė”, represented by Danas Kerbelis, Director General, Audra Jauniškienė, Finance and Administration Director, and Audronė Šulgaitė, Senior Financier, hereby confirm that the information contained in the Report is in accordance with the facts and that the Report makes no omission likely to have an effect on the investors' decision concerning purchase, sale or valuation of the issuer's securities or on the market price of these securities.

Danas Kerbelis, Director General of AB “Vilniaus degtinė”

Audra Jauniškienė, Finance and Administration Director of AB “Vilniaus degtinė”

Audronė Šulgaitė, Senior Financier of AB “Vilniaus degtinė”

The financial brokerage firm AB “Finasta”, represented by Asta Krušnauskaitė, corporate advisor, confirm that the Report contains accurate information as presented to AB “Finasta” by the employees and managers of AB “Vilniaus degtinė”. AB “Finasta” is responsible for the proper disclosure of the presented facts. AB “Vilniaus degtinė” is responsible for the accuracy of the information.

Asta Krušnauskaitė, corporate advisor, AB “Finasta”

Date of signing of the Report: 11 May 2006.

Place of drawing up of the Report: Finasta AB (Konstitucijos Ave. 23. Vilnius)



II. DATA ABOUT THE ISSUER'S AUTHORISED CAPITAL AND THE SECURITIES ISSUED

7. The issuer's authorized capital:

7.1. The authorized capital as registered in the Register of Legal Entities

Table 7.1.1. Composition of the authorised capital.

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Portion in the authorised capital, %
Ordinary registered shares	24,408,431	1	24,408,431	100.00

All shares of AB “Vilniaus degtinė” are fully paid up.

7.2. Information about the projected increase of the authorized capital in connection with conversion or exchange of convertible debt securities or derivative securities into shares:

AB “Vilniaus degtinė” has issued no debt securities or derivatives convertible into shares.

8. Shareholders

The Annual General Meeting (AGM) of AB “Vilniaus degtinė” shareholders was held on 12 April 2006. The meeting's registration date: 5 April 2006.

Number of shareholders: 151.

Table 8.1. Shareholders who held title to more than 5 percent of the issuer's authorized capital or votes on the AGM Day.

Name of the shareholder (type, address of registered office and code of the enterprise)	Number of ordinary registered shares the shareholder holds by the right of ownership, units	Portion of the authorised capital held, %	Portion of the votes attaching to the shares held by the right of ownership, %	Portion of votes held by the shareholder together with the persons acting in concert, %
SOBIESKI SP.Z.0.0. ul. Bellottiego 1, 01-022, Warszawa, Polska 230030460	16,668,632	68.29	68.29	----
DARIUS ŽAROMSKIS	4,881,686	19.99	19.99	----
SKANDINAVISKA ENSKILDA BANKEN CLIENTS Sergels Torg 2, 10640 Stockholm, Sweden 50203290810	2,326,450	9.53	9.53	----

9. Main characteristics of the shares issued for public trading

All shares of AB “Vilniaus degtinė” have been issued for public trading. There are 24,408,431 outstanding ordinary registered shares of LTL 1 nominal value.

10. Data about the shares offered for private placement

There have been no private placements of shares.

11. Information about depositary receipts representing shares

No depositary receipts representing shares have been issued.



12. Main characteristics of the debt securities issued for public trading

No debt securities have been issued for public trading.

13. Data about the debt securities offered for private placement

No debt securities have been offered for private placement.

14. Securities not representing capital, the trading whereof is regulated by the Law on Securities Market, except debt securities

There have been no issues of securities not representing capital, the trading whereof is regulated by the Law on Securities Market.



III. DATA ABOUT THE SECONDARY TRADING IN THE ISSUER'S SECURITIES

15. Securities admitted to the trading lists of the stock exchanges

The ordinary registered shares of AB “Vilniaus degtinė” were admitted to the Current List of the Vilnius Stock Exchange (hereinafter – VSE) as of 25 March 2002.

Table 15.1. Main characteristics of the shares of AB “Vilniaus degtinė”

Type of the shares	ISIN code	Number of shares	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares	LT0000112450	24,408,431	1	24,408,431

16. Trading in the issuer's securities on the VSE and other organized markets

16.1. Traded on the VSE

Table 16.1.1. Trading in the Company's ordinary registered shares in 2004 – 2005

Reporting period	Price, LTL			Turnover, LTL			Date of the last session	Total turnover	
	Highest	Lowest	Last session	Highest	Lowest	Last session		Highest	Lowest
2004, 1 st quarter	1.04	0.90	0.90	11,028.16	-	-	31.03.2004	37,217,	37,010.24
2004, 2 nd quarter	1.00	0.90	1.00	1,094,920.20	-	-	30.06.2004	1,246,441	1,124,619.66
2004, 3 rd quarter	1.01	0.76	0.76	14,131.81	-	3 050.00	30.09.2004	54,740	44,277.38
2004, 4 th quarter	1.53	0.75	1.53	12,214.55	-	153	31.12.2004	54,710	55,749.28
2005, 1 st quarter	2.55	1.45	2.25	1,121,009.43	-	2 904.68	31.03.2005	1,502,951	1,657,431.76
2005, 2 nd quarter	2.29	1.89	2.16	15,495.00	-	-	30.06.2005	51,103	106,968.92
2005, 3 rd quarter	3.15	2.01	3.00	18,430.60	-	-	30.09.2005	63,110	168,134.54
2005, 4 th quarter	3.45	2.80	3.00	12,267.69	-	-	31.12.2005	33,358	101,621.20



Fig. 16.1.1. Trading in the Company's ordinary registered shares

16.2. Trading on other exchanges

Shares of AB “Vilniaus degtinė” are not traded on any other exchanges.



16.3. Trading on other organised markets

Shares of AB “Vilniaus degtinė” are not traded on any other organised markets.

17. Capitalization of securities

Table 17.1. Capitalization of the Company’s shares

Date of the last session	Capitalization (LTL)
31.03.2004	21,967,588
30.06.2004	24,408,431
30.09.2004	18,550,408
31.12.2004	37,344,899
31.03.2005	54,918,970
30.06.2005	52,722,211
30.09.2005	73,225,293
31.12.2005	73,225,293

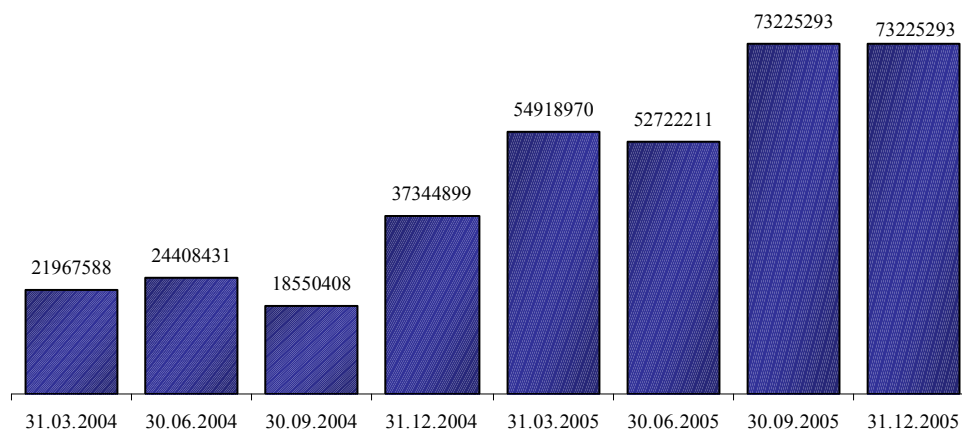


Fig. 17.1. Capitalization of the Company’s shares, LTL

18. Trading in the issuer’s securities on the OTC market

As the ordinary registered shares issued by AB “Vilniaus degtinė” are admitted to the Current List of the Vilnius Stock Exchange, share purchase and sell transactions may be only concluded on the VSE. OTC trades may be concluded only in the cases of share donation, inheritance, exchange, settlement of liabilities and REPOs.

Table 18.1. OTC transactions in the ordinary registered shares of AB “Vilniaus degtinė”

Reporting period	Settlement in cash				Settlement in kind	
	Price, LTL		Number of shares	Amount, LTL	Number of trades	Number of shares
	Highest	Lowest				
2004, 1 st quarter	1.02	0.67	204,936	197,858	2	-
2004, 3 rd quarter	-	-	-	-	-	3,697
2004, 4 th quarter	0.60	0.60	18,000	10,800	1	-

In other quarters of 2004 and 2005 no OTC trades in the Company’s took place.



19. Data about the issuer's buying up of own shares

No buying up of own shares has been carried out by AB “Vilniaus degtinė”.

20. Indication of a tender offer

No tender offer to acquire shares of AB “Vilniaus degtinė” was made in 2005. Neither did the issuer announce a tender offer to acquire securities issued by other entities.

21. The issuer's paying agents

The Company has no paying agents.

22. Agreements with intermediaries of public trading in securities

AB “Vilniaus degtinė” has signed an agreement of unlimited duration with the financial brokerage firm AB “Finasta” (Konstitucijos Ave. 23, Vilnius) concerning management of securities accounting and drawing up of the periodical reports.



IV. DATA ABOUT THE ISSUER'S ACTIVITY

23. Legal basis for the issuer's activity

The Company is operating in compliance with the provisions of the Law on Companies, the Law on Securities Market and other legal acts of the Republic of Lithuania and its By-laws.

24. Membership in associated structures

AB “Vilniaus degtinė” is a member in the following associated structures:

- Lithuanian National Road Carriers’ Association “Linava”. The Association was established on 4 October 1991. It unites, on a voluntary basis, legal persons of the Republic of Lithuania, carrying passengers and cargo by road, for a fee or at their own expense, and rendering services in relation to road transport. The Association acts in accordance with the Constitution of the Republic of Lithuania, the Civil Code, the Law on Associations, other laws, Government decisions, legal acts of the International Road Transport Union (IRU), its By-Laws and resolutions of the Congress and the Presidium.

The main objectives of the Association are to seek improvement of the conditions for the transport business, to offer the Association members assistance and services in passenger and cargo transportation by road, to develop and improve them, to represent the Association members in their relations with the public authorities, international and other organisations and persons.

- Association of Lithuanian Chambers of Commerce, Industry and Crafts. The Association of Lithuanian Chambers of Commerce, Industry and Crafts is a voluntary association, uniting Chambers of Commerce, Industry and Crafts and representing their interests.

Key functions:

- To coordinate the Chambers’ activities in developing common strategy for Chambers development and international economic cooperation;
- To represent the Chambers in the process of cooperation with the state, public and government institutions, foreign entities and state institutions;
- To draw up and submit proposals to the Government of the Republic of Lithuania and other state institutions on issues of business development;
- Acting in the manner established by the laws of the Republic of Lithuania, to issue ATA Carnets for temporary admission of goods;
- To represent the Chambers at international fairs, conferences and other events;
- To label and encode the goods (EAN – Lithuania)
- To establish and manage business (trade) register.

- Association of Traders in Alcoholic Beverages. The Association was formed in 2003. It comprises 11 entities producing about 85 percent of Lithuanian alcoholic beverages (except beer) and carries out about 85 percent of all wholesale of alcoholic beverages (except beer). The Association is a representative of the alcohol industry in Lithuanian and EU organisations and one of the largest food industry organisations in Lithuania according to volume, number of employees and the amount paid in taxes.

The Association, while performing its functions, aims at:

- Protecting, supporting, and increasing opportunities to produce and trade alcoholic beverages in the ways acceptable to the society;
- Reducing tendencies of excessive consumption of alcohol;
- Carrying research on the dynamics of the alcohol market and prospects of its development in Lithuania;
- Making the opinion of the Lithuanian alcohol industry enterprises known to the politicians,



decision-making public servants, mass media and consumers;

- Harmonising and coordinating actions of industrial enterprises in their relations with other entities and organisations;
- Representing its members and protecting their interests in relation to the state institutions of the Republic of Lithuania;
- Assisting its members in reaching foreign firms;
- Ensuring that in Lithuania the consumer is sold quality alcoholic beverages.

- Lithuanian Confederation of Industrialists. The founding congress of the Lithuanian Association of Industrialists was held on 17 June 1989. In 1993, the Association was reorganised into the Lithuanian Confederation of Industrialists (LCI). Today the LCI embraces 39 industry and 8 regional associations, uniting more than 2 700 enterprises of various types.

Key objectives of the Confederation are as follows:

- To represent and protect interests of the LCI members in the governmental, social and international organisations;
- To enhance the economy of Lithuania; to assist companies in searching for new markets and create most beneficial conditions for the export of Lithuanian products;
- To seek compliance with ecological requirements in Lithuania;
- To protect social and legal interests of Lithuanian employers and strengthen a social dialogue;
- To develop relations with international industry, business and employer organisations.

- Association “Food industry of Lithuania”. On 28 December 1990, a founding agreement of the Lithuanian Association of Food Industry Enterprises was signed with legal entities, including AB “Vilniaus degtinė”. It is an independent union of enterprises, coordinating and performing tasks entrusted to it by its members and representing economic interests thereof. The Association is functioning in accordance with the Law on Associations of the Republic of Lithuania.

25. Brief description of the issuer's history

The history of the company started at the beginning of the twentieth century, in 1907, at the Obeliu Spirit Distillery in the region of Rokiškis. At that time, the distillery was owned by the counts and the drinks were made exclusively for aristocracy. At the beginning of the nineteenth century, Vilnius was a home of many small private producers of strong drinks. With time, they were shrinking in number. In 1922, a group of private enterprises merged establishing a new factory to produce liquor. In 1940, it became the main producer of strong drinks in the country. In 1995, the state enterprise “Vilniaus degtinė” was reorganized into a special purpose public company (AB) “Vilniaus degtinė”. The Company has a subsidiary, the Obeliu Spirit Distillery, producing distilled grain ethyl alcohol, the primary component of the spirit drinks made by “Vilniaus degtinė”.

Maintaining deep Lithuanian traditions, products by “Vilniaus degtinė” have won numerous awards for quality and exceptional recipes; to top it off, the special type of bitter „trauktinės” “Čepkelių” was recognised as an invention.

In November 2003, more than 80% of the company’s shares were purchased by Sobieski SP.Z.O.O., a Polish subsidiary of the French company BELVEDERE S.A. Currently this concern owns about 150 brands of the world-known strong drinks. It has subsidiaries or is part of joint ventures in 25 countries worldwide. The company specialises in production and sale of spirit drinks as well as development and management of their brands.

In December 2005, the produce of AB “Vilniaus degtinė” – flavoured vodka “Sobieski su spanguolėmis” (‘Sobieski with cranberries’) – won a gold medal “The Product of the Year 2005”, issued by the Lithuanian Confederation of Industrialists.

During the tasting at the fair “Agrobalt 2005”, the Company’s vodkas “Sobieski su spanguolėmis” and



“Bajorų Premium” were marked as the tastiest.

26. Characteristics of the production

The Company produces and sells different types of vodka and liqueurs, other types of spirit drinks, rectified grain ethyl alcohol, and distilled ethyl alcohol. Vodka makes the major portion of the company's production sales. The most popular brands are “Bajorų”, “Sobieski”, and “Karvedys”. Besides vodka, the company produces a special type of bitters called „trauktinės” and liqueurs. Most of the company's production is made only from natural ingredients, such as: nuts, berries, fruits, juices, and honey. Vodka “Sobieski” is manufactured following a special technology, the secret of which is a meticulous monitoring process and care from the first grain to the launch to the market. Therefore it is called “raised”. Based of the unique 19th recipe, the vodka “Sobieski” is produced only from the highest quality alcohol and pure water without any flavouring or spice additives. As a result, high quality noble vodka “Sobieski” of a soft and refined taste is produced.

In 2005, the production volume, compared to that in 2004, went soaring up by 54 percent. Three new products were developed and put into production, namely, flavoured vodkas “Sobieski su spanguolėmis” (with cranberries), “Sobieski su pipirais ir medumi” (with pepper and honey) and “Sobieski su mandarinais” (with tangerines) as well as the first batch of the vodka “Krolevska” for export to France. The newly produced flavoured vodkas met all expectations – the products soon won popularity and recognition.

Production volumes of flavoured vodkas constituted 21.2 percent of the total volume of the vodka produced during the year; during the second half of the year this percentage increased by as much as 33 percent.

The products not favoured on the market, the vodkas “Lietuviška gryoji” and “Kedrinė”, were taken off the production.

Table 26.1. Production volume of the main products in kind, 2003–2005

	2003		2004		2005	
	THOUSAND DAL.	ASORTMENT, UNITS	THOUSAND DAL.	ASORTMENT, UNITS	THOUSAND DAL.	ASORTMENT, UNITS
Vodka	244.3	27	358.8	24	475.1	20
Flavoured vodka	-	-	-	-	128.3	3
Bitter	95.1	12	108.6	11	120.4	10
Liqueur	13.2	8	13.8	5	16.6	5
Whisky	1.0	1	0.6	1	0.2	1
Gin	2.0	1	0.9	1	3.0	1
TOTAL	355.6	49	482.7	42	743.6	40

Table 26.2. Average product price (excl. VAT and excise duty), LTL /bottle

Product	2003	2004	2005
Vodka	2.81	2.46	2.49
Bitter	3.57	3.15	2.99
Sweet bitter	4.61	4.21	4.09
Liqueur	6.37	6.18	5.88
Whisky	8.73	8.19	7.84
Wine	-	-	2.24

The Company’s subsidiary “Obelių spirit distillery” produces distilled ethyl alcohol from grain. The produced ethyl alcohol is supplied to AB “Vilniaus degtinė” for rectification and further processing. In 2005, a selection of farms continued by making long-term agreements for growing and supplying grain, suitable for the production of ethyl alcohol for the vodka “Sobieski”. In July 2005, the distillery was closed for routine repairs of the manufacturing and grain storage facilities and the boiler.



In 2005, compared to the year 2004, the production of ethyl alcohol increased by 14 % (in 2005 the spirit distillery's output was 2 839.7 thousand litres; in 2004 this figure amounted to 2 482.5 thousand litres).

Table 26.3. Ratios characterizing the issuer's performance in 2003–2005

Ratios	International Financial Reporting Standards		Lithuanian Business Accounting Standards	
	2005	2004	2004	2003
Profit margin= net profit / sales * 100	8.19%	3.43%	3.22%	0.92%
Return on assets= net profit / (assets at the beg. of period + assets at the end of period) / 2 * 100	5.84%	1.78%	2.04%	0.62%
Debt ratio= liabilities / assets	0.56	0.48	0.48	0.20
Debt-equity ratio= liabilities / equity	1.27	0.93	0.92	0.25
Current Ratio= current assets / current liabilities	1.47	1.92	1.92	2.20
Asset turnover = sales / assets	0.62	0.52	0.52	0.73
Book value per share= equity / number of shares	LTL 1.36	LTL 1.21	LTL 1.20	LTL 1.16
Net profit per share= net profit / number of shares	LTL 0.16	LTL 0.04	LTL 0.04	LTL 0.01

27. Sales markets

In 2005, the biggest portion of AB “Vilniaus degtinė” sales fell to vodka – 6,137.1 thousand litres, or 81.01% of the total turnover. Bitters were sold in the amount of 581.5 thousand litres (7.68 %), sweet bitters constituted 646.2 thousand litres (8.53 %), liqueurs – 169.1 thousand litres (2.23 %), Scottish whisky – 3.4 thousand litres (0.04 %). The largest sales are generated from vodka “Bajorų” accounting for 19.2 % of the sales, vodka “Sobieski” – 14.3 %, bitters “Čepkelių” – 6.6 %, and “Bajorų Premium” – 5.0 % of the total volume sold. Sales of the vodka products put into production in 2005 made up the following portion of the total turnover: “Sobieski su spanguolėmis” – 11.9 %, “Sobieski su pipirais ir medumi” – 4.9 %, “Sobieski su mandarinais” – 2.0 %.

Table 27.1. Sales volumes in 2003–2005

PRODUCTION	2003			2004			2005		
	THOU DAL.	LTL, THOU	%	THOU DAL.	LTL, THOU	%	THOU DAL.	LTL, THOU	%
Vodka	238.70	12,852.25	56.14	352.46	17,277.67	63.84	613.71	30,554.68	73.48
Bitter	49.70	3,402.61	14.86	54.12	3,401.52	12.57	60.89	3,641.12	8.76
Sweet bitter	47.20	4,248.25	18.56	53.88	4,538.62	16.77	64.62	5,292.48	12.73
Liqueur	12.90	1,601.41	7.00	13.79	1,705.25	6.30	16.91	1,989.18	4.78
Whisky	0.60	99.32	0.43	0.57	91.13	0.34	0.34	53.10	0.13
Wine	-	-	-	-	-	-	1.11	49.90	0.12
Products in specialised outlets	-	688.62	3.01	-	51.10	0.19	-	-	-
TOTAL:	349.10	22 892.46	100.00	474.86	27 065.29	100.00	757.58	41 580.46	100.00

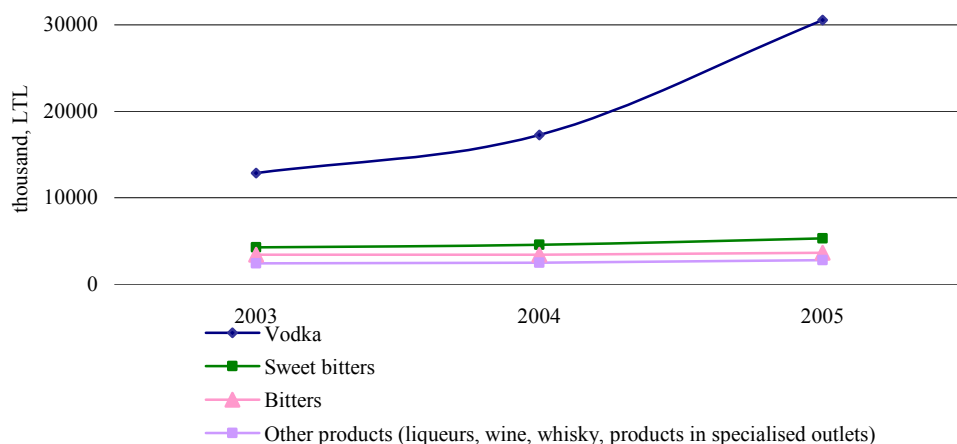


Fig. 27.1. The Company's sales volumes in 2003–2005

Last year the Company produced and exported to Poland “Vodka Wilenska” (46.3 thousand litres), “Senasis Vilnius” (4.1 thousand litres) and bitter “Balzam Wilenski” (32.2 thou litres).

Table 27.2. Company's sales by markets, 2003–2005

Production	2003			2004			2005		
	THOU DAL.	LTL, THOU	%	THOU DAL.	LTL, THOU	%	THOU DAL.	LTL, THOU	%
Lithuania	335.9	21 766.7	95.08	469.7	26 683.6	98.59	748.9	41 094.2	98.83
Foreign markets:									
-EU countries (Poland, France)	-	-	-	1.1	54.2	0.20	8.7	486.3	1.17
-Duty free shops	13.2	1 125.8	4.92	4.1	327.5	1.21	-	-	-
Total:	349.1	22 892.5	100.00	474.9	27 065.3	100.00	757.6	41 580.5	100.00

In order to take a leading position in the market in the conditions of growing competition and with the prices of most import beverages going down after Lithuania's accession to the European Union, in 2005 the Company focused on the image enhancement of its brands “Sobieski”, “Bajorų Premium”, and “Karvedys”, on sales promotion and advertising. Furthermore, part of the funds was allocated for the advertising campaigns of the bitters “Čepkelių”, “Vilniaus starka”, liqueur “Damų su brendžiu” and other products. Investment was made into some untraditional marketing, e.g. we have issued a few music CDs “Sobieski Uogos” and sponsored several cultural events. All in all, in 2005 LTL 4,374.3 thousand was spent on advertising of spirit drinks, sponsorship and sales promotion.

At the end of 2005, AB “Vilniaus degtinė” had almost a 32 percent share of the vodka market, a substantial increase compared to 2004, when the Company held only 18 percent of the vodka market at the year-end. The Company's share in the bitter market constituted about 22.5 percent.

Most of the Company's contracts with suppliers concerning product realization are concluded for a calendar year. Contracts are concluded with wholesale and retail sale enterprises, licensed by the State Tobacco and Alcohol Control Agency for this type of activities.

28. Procurement

In 2005, the Company had no problems in procuring raw materials for the production cycle. Suppliers are selected on the basis of the best price and quality considerations and finally approved after negotiations. Raw materials are procured in compliance with the EU regulations in force. The procurement unit makes a list of



eligible suppliers, examines the data about the product, i.e. its quality and price, and monitors how supply obligations have been met.

Raw materials are mainly supplied under long-term and short-term contracts. Part of the raw materials are obtained under one-off contracts.

In 2005, the Company held contracts to purchase crème liqueur concentrate from Holland, brandy from Azerbaijan, and wine from Ukraine.

Ancillary items to ensure the production cycle were purchased from:

- AB “Panevėžio stiklas”: bottles for the main produce (the most acceptable supplier in terms of the price, quality, supply and settlement conditions),
- Germany, Czech Republic, France, Poland: bottles for souvenir production (not produced elsewhere),
- Foreign suppliers: bottle caps (the most acceptable suppliers in terms of the price, supply and settlement conditions),
- Lithuanian producers: labels, label glue (the most acceptable suppliers in terms of the price, quality, supply and settlement conditions),
- Other producers: materials, parts of equipment, construction materials for repairs, household goods, office supplies are procured on the basis of applications of a standard form submitted to the Procurement Division.

Table 28.1. Procurement by countries in 2005, %.

COUNTRY	PROCUREMENT VOLUME BY COUNTRY, %
Lithuania	82.89
Poland	13.27
Netherlands	1.69
Bulgaria	0.61
France	0.54
Azerbaijan	0.31
Czech Republic	0.28
Ukraine	0.2
Germany	0.09
Italy	0.08
Latvia	0.04

29. Immovable property and other main facilities

The plot of land occupied by the Company is 237 00 m². It is in the central part of Vilnius (in Naujamiestis, close to the railway). The plot of land is used on the basis of a lease agreement with Vilnius municipality.

In Obeliai, Rokiškis region, the Company has a spirit distillery.

Table 29.1. Main buildings and constructions

NAME	RESIDUAL VALUE, LTL 31.12.2005	DATE OF LAUNCH	STATUS
1. Production unit	941 531	1971	good
2. Warehouse	212 452	1964	good
3. Fire station	118 122	1975	good
4. Rectification unit	431 991	1969	good
5. Heating centre	32 433	2000	good
6. Water cooling unit	173 420	1997	good



OBELIŲ SPIRIT DISTILLERY			
7. Fermentation unit	485 108	1985	good
8. Grain storage house No.2	310 592	1990	good
9. Scale (weighing) building	265 460	1995	good
10. Grain storage house No.1	242 684	1983	good
11. Spirit unit	308 567	1958	good
12. Boiler house	145 508	1977	good

On 1 January 2005, the Company had not used or only partly used its fixed assets (construction in progress), whose residual value amounted to LTL 7,057 thousand. Construction in progress concerns the construction of a soft drinks unit in Vilnius. The Company's strategic plans changed and in 1994 the whole project was cancelled. The building was completed to 96 percent. In 2005, part of the construction in progress was completed and the new premises started functioning. At the end of 2005, the value of the remaining part of construction in progress was reduced by LTL 362 thousand. Furthermore, the amount of LTL 24.3 thousand allocated for the Obelių Spirit Distillery development was written off because the project had been cancelled.

As of 31 December 2005, the residual value of the construction in progress was LTL 3 265.2 thousand.

30. Risk factors related to the issuer's activity

Economic risk factors. Repayment of bank loans. The Company's main competitors in Lithuania are other producers of spirit drinks, such as AB “Alita”, AB “Anykščių vynos”, and AB “Stumbras”. Competition is intensified through imported strong beverages.

In order to hold a leading position in the market under the conditions of increasing competition the Company focused on the enhancement of the brand image, sales promotion and advertising. The Company approached advertising agencies UAB “Video reklamos studija”, UAB “Video reklamos agentūra” and others with a request to realize the image enhancement and promotion of the brands “Sobieski”, “Bajorų Premium”, and “Karvedys”.

In 2005, the Company had no problems in procuring raw materials for the production cycle. It signed long-term procurement agreements with suppliers and set concrete dates of supplies. Contracts with suppliers concerning product realization are concluded for a calendar year with both wholesalers and retailers, holding a licence issued by the State Tobacco and Alcohol Control Agency for this type of activities. In 2005, compared to 2004, the amounts receivable within one year increased by LTL 14,720.26 thousand, including LTL 13,689.54 of trade debtors due to the increase of sales volumes and the extension of payment deadlines.

During the year 2005, the Company's amounts payable and liabilities went up by LTL 14,858.63 thousand in long-term financial liabilities due to the long-term and middle term credits extended by HVB-bank Bayerische Hypo-und Vereinsbank AG Vilnius branch. The long-term credit (EUR 4,930 thousand) was spent to acquire licences. The middle-term credit (EUR 543.8 thousand) was used to supplement the working capital. The overdraft extended to the Company by HVB-bank Bayerische Hypo-und Vereinsbank AG on 31 December 2005 was not used. Other amounts payable and liabilities increased due to the increased amounts paid in taxes (after the sales volumes had increased accordingly). Debts to suppliers, compared to the same period in the previous reporting year, went up by 3.5 times due to the increased production and the extended terms of settlement.

As of 31 December 2005, the financial liabilities to credit institutions amounted to LTL 17,397.8 thousand (a long-term credit in the amount of LTL 17,022.3 thousand matures on 15 March 2011 and a middle-term credit of LTL 375.5 thousand matures on 15 March 2006).

During 2005, AB “Vilniaus degtinė” paid back the LTL 1,502.0 thousand middle-term credit. During the reporting period LTL 111.9 thousand was repaid to UAB “SEB VB lizingas” under the financial lease agreement. As of 31 December 2005, leasing liabilities amounted to LTL 35.3 thousand.



Table 30.1. Financial liabilities to credit institutions

	Interest rate, %	Amount, LTL thou		Maturity
		Up to 1 year	1 – 5 years	
Vereins– und Westbank AG	3 months' EURIBOR + 1.9	2553	14469	15.03.2011
Vereins– und Westbank AG	3 months' EURIBOR + 1.8	376	-	15.03.2006
Total:		2929	14469	

As of 31 December 2005, the value (current) of the Company's assets pledged to secure the overdraft and the middle-term and long-term loans extended by HVB-bank Bayerische Hypo–und Vereinsbank AG Vilnius branch was LTL 44, 869.5 thousand.

Table 30.2. Pledged assets, LTL thousand

NAME OF THE PLEDGED ASSETS	RESIDUAL (ACTUAL) VALUE 31.12.2005
1. Buildings and structures	11,526.5
2. Equipment	2,450.1
3. Property right (residual value of the brand name specified as the claim right to the permit agreement concerning the brand name)	17,652.8
4. Property right – the right to lease land	-
5. Cash in the bank account with Bayerische Hypo- und Vereinsbank AG Vilnius branch	7,732.9
6. Inventories	5,507.2
Total	44,869.5

Other liabilities and guarantees

1. The State Tax Inspectorate has been issued a written surety in the name of the owner of the excise warehouse concerning payment of taxes due (liabilities amount to LTL 7,100 thousand).
2. The Lithuanian Road Carriers' Association “Linava” has been issued a long-term guarantee, depositing funds with AB SEB Vilniaus bankas (the deposited amount was LTL 23.3 thousand (USD 8 thousand)) for an access to the TIR customs transit system.
3. The National Payment Agency at the Ministry of Agriculture of the Republic of Lithuania has been issued three long-term guarantees, depositing funds with Bayerische Hypo- und Vereinsbank AG Vilnius branch (the deposited amount was LTL 2.6 thousand) to obtain the import licence.
4. A collateral in cash has been paid into the account of the State Tax Inspectorate of Vilnius County to guarantee fulfilment of tax obligations in relation to the exports (the amount of the collateral is LTL 172.5 thousand).

The analysis of main financial ratios shows that the Company's liquidity level is pretty high and that it has enough of liquid assets. The Company's profit margin, compared to the previous year, went up by 11.0 percentage points and made up 56.4 percent. That is an indication of a rational marketing, the right price and competition policy, the growth in production and sales. The rise in asset profitability ratio (ROA) by LTL 0.04 indicates a more profitable use of the assets. Although the debt and equity ratio, compared to the previous financial year, increased, the value of the ratio – 1.27 – involves no risk to the creditors.

In 2005, the net cash flows from the core activities amounted to LTL 10,234.7 thousand. They have increased, to a high extent, due to the debts to suppliers (after more favourable settlement terms had been set for the Company) and the increase in liabilities to the budget.

The negative cash flows from investment activities (LTL 1,046.1 thousand) resulted from acquisitions of fixed assets and the received interest.

The negative net cash flows from financial activities (LTL 2,379.0 thousand) built up after part of the loans had been repaid and the interest paid to the bank. In 2005, the total amount in cash and cash equivalents increased by LTL 6,809.6 thousand.



Ecological risk factors. In the reporting year no restrictions or suspensions of the production activities were imposed on the Company for the environmental pollution. In 2005, no other ecological risk factors or accidents took place, except for the penalty paid in the amount of LTL 32.2 thousand for the environmental pollution and LTL 16.1 thousand for the consumption of the natural resources.

The Company has concluded agreements with AB “Panevėžio stiklas” and UAB “Kauno stiklas” concerning the tare disposal. During 2005, LTL 350.5 thousand was spent for that purpose. In 2004, the tare disposal costs amounted to LTL 235.6 thousand. With the increase in the production and sales this figure may go up even more.

Social risk factors. The remuneration fund is regularly reviewed and increased. The payroll wages and salaries are always paid on time. The company’s staff improve their qualifications through training courses and seminars.

Technical and technological risk factors. In the Company quite a few pieces of technological equipment are outdated and worn out, therefore a special attention is placed on updating of the equipment, the development of technological processes and quality improvement. Big amounts are regularly allocated for upgrading of the technological equipment.

Political risk factors. Essential changes in the business environment are associated with the country’s tax reform. In the coming two years the corporate profit will be subject to additional social tax. This is provided by the temporary Law on Social Tax of the Republic of Lithuania passed in 2005. Pursuant to this Law, starting with the year 2006, an additional tax of 4 percent will be imposed on the corporate profit; in the year 2007, this tax will amount to 3 percent. That will have a direct impact on the Company’s net profit.

31. Halts or reductions of production that have exercised or are exercising material impact on the results of the issuer during the last two financial years

In the period of July – August 2004, the Obelių Spirit Distillery did not work. During this period routine repair works of the production units were performed.

In 2005, the Obelių Spirit Distillery did not work from 15 June to 5 August. Then routine repair work was done in the production unit, the grain storage house, and the boiler equipment.

32. Patents, licenses, contracts

The Company holds License No. 146, issued by the State Tobacco and Alcohol Control Agency at the Government of the Republic of Lithuania as of 13 December 2000, “to produce alcoholic products of an actual alcoholic strength by volume not exceeding 22 % vol, alcoholic beverages, denatured and undenatured ethyl alcohol, including spirits (code in the Combined Nomenclature: 2208), wine (code in the Combined Nomenclature: 2204), wine of fruit and berries (code in the Combined Nomenclature: 2206), undenatured ethyl alcohol (code in the Combined Nomenclature: 2207) and denatured ethyl alcohol (code in the Combined Nomenclature: 2207)”. The term of validity of the licence is indefinite.

The Company also holds License No. 4L-96a, issued by the State Tobacco and Alcohol Control Agency at the Government of the Republic of Lithuania as of 8 April 2005, “to engage in wholesale in alcoholic beverages”. The groups of alcoholic beverages for wholesale covered by the Licence and their codes in the Combined Nomenclature are as follows: beer: 2203, wine: 2204, 2205, fermented beverages: 2206, spirituous beverages: 2208, alcoholic mixtures: 2208.

The State Patent Bureau has issued certificates of the Company’s brand names and trademarks; the Company also uses a brand name registered in the name of another person on the basis of a contractual arrangement.

The raw materials containing ethyl alcohol are imported under licenses for the import of alcoholic products issued by the State Tobacco and Alcohol Control Agency.

33. Court (arbitration) proceedings

In 2005, no court (arbitration) proceedings likely to have had or to have a material effect on the financial position of the Company took place.



34. Staff

In 2005, compared to 2004, the average payroll of hired employees reduced by 20 people (in 2005 there worked 209 persons and in 2004 there were 229). In 2005, the average payroll contained 50 employees in the Obelių Spirit Distillery.

In 2005, the average wage was LTL 1,667.92; compared to 2004, it increased by 6 percent after a pay raise in July 2005.

The Company's employees were trained in different seminars and courses. In 2005, five employees completed extra mural studies of higher education, 13 more continue their studies.

Table 34.1. Enrolment list of the employees, 2003–2005

	2003	2004	2005
Number of employees	253	229	209

Table 34.2. Average monthly salary, LTL

EMPLOYEES	2003		2004		2005	
	Number of employees (31 December)	Average salary, LTL	Number of employees (31 December)	Average salary, LTL	Number of employees (31 December)	Average salary, LTL
Managers	4	5,135	5	7,284	4	6,255
Specialists	92	1,883	56	1,734	54	2,202
Workers	154	1,270	124	1,323	160	1,345
Total:	250	1,480	185	1,574	218	1,668

Table 34.3. Breakdown of the employees by education

	Number of employees 31.12.2003	Number of employees 31.12.2004	Number of employees 31.12.2005
University education	41	39	40
College education	96	44	51
Secondary or vocational education	105	94	116
Incomplete secondary education	8	8	11

35. Investment policy

Investments of AB “Vilniaus degtinė” have never exceeded 30 percent of its authorised capital. In the period of the preceding 3 years no major investments have been made.

In 2005, we concentrated on improvement of the technological process, modernised the equipment, optimised work organisation and production capacity, which made it possible to put new products into production, to enhance their quality and reduce the losses in the production process.

The major investment (LTL 1,176.6 thousand) was used to:

- Purchase technological lines (LTL 681.9 thousand);
- Capital construction (LTL 182.3 thousand);
- Acquire intangible assets (LTL 78.1 thousand);
- Acquire other assets (LTL 234.3 thousand).

The following measures were implemented in the process optimisation, automation and mechanization:

- An automatic ferrous water filtering system was installed and an upgraded water softening process in the water preparation unit introduced into the production process; the premises of the unit were repaired. This measure allowed to more rationally use material resources, namely, to reduce the amount of salt consumed for the preparation of one cubic metre of water, to improve the working conditions and the sanitary situation of the premises and to diminish the labour



intensity.

- A new vodka filtering system was assembled and put into production in the vodka production unit. An additional system allows to completely separate the technology process of the vodka “Sobieski” from the flows of other beverages produced in this unit.
- Two new containers for mixing beverages were assembled and launched in the liqueur, bitter and heavily flavoured vodka unit, an improved filter system with an additional filter press was introduced, and the process of product mixing and filtering improved. This measure allowed to take an advantage of the older equipment, save the working time and material resources, increase the production volume in this unit.
- Before putting new vodkas “Sobieski su spanguolėmis”, “Sobieski su pipirais ir medumi”, and “Sobieski su mandarinais” into production, a number of organisational measures had to be implemented. First of all, recipes of the beverages were created, proper sorts of cranberry, bitter pepper and tangerines were selected and the keeping conditions established. The whole process of fruit preparation and putting into bottles was worked out. Quite many organisational and technological measures were introduced for the selection of raw materials, mixing of the product, preparation and filtering, as well as storing. New jobs were created to perform the above-mentioned functions.
- A new bottling and capping machine was launched in the bottling unit. This new bottling and capping machine for 0.25 l bottles enabled to additionally bottle 600 thousand litres of beverages a year with the same labour force.
- A new compressor for supplying pressed air improved the quality of the suppressed air and the quality of vodka mixed with the pressed air accordingly, the service costs and air filtering costs also reduced.
- All number counters of full bottles in the bottling unit were replaced with new modern ones. This measure enabled to fully monitor the bottle marking process and to introduce a new bottle counting programme.
- Bottle numbering machines were moved to another place on the bottling line. Due to this improvement the serial batch number sprayed on the caps has become more distinct and of a better quality.
- Business accounting software *Axapta* was installed and put into practice. This solution allows to faster manage production processes, to calculate material resources and the optimal inventory balances.

36. Main competitors

The Company's main competitors are public companies AB “Alita”, AB “Anykščių vynos”, and AB “Stumbras”. Imported alcohol beverages strengthen competition. Cheaper imported beverages reach the alcohol market from other Baltic countries as well.

At the end of 2005, AB “Vilniaus degtinė” occupied almost 32 percent of the vodka market (at the end of 2004, its share was 18 %). The share in the bitters market made up 22.5 percent.

37. Dividends paid

Table 37.1. Dividends paid

For the financial year	Dividends paid, LTL	Amount of dividend per share, LTL
2000	1,708,590	0.07
2001	268,493	0.011
2002	488,169	0.02
2003	-	-
2004	-	-
2005	-	-



V. FINANCIAL STATUS

38. Financial statements

Balance Sheet, LTL

According to the International Financial Reporting Standards

NO.	ASSETS	31.12.2005	31.12.2004
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.	Licenses, 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		
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 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		
IV.	CASH AND CASH EQUIVALENTS	7,782,968	973,330
	TOTAL ASSETS:	75,443,609	56,727,672



NO.	EQUITY AND LIABILITIES	31.12.2005	31.12.2004
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.5.	Deferred 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



According to the Lithuanian Business Accounting Standards

NO.	ASSETS	31.12.2004	31.12.2003
A.	NON CURRENT ASSETS	37,944,737	20,043,933
I.	INTANGIBLE ASSETS	18,844,034	181,629
I.1.	Development works		
I.2.	Goodwill		
I.3.	Licenses, patents	18,624,960	13,410
I.4.	Computer software	219,074	168,219
I.5.	Other intangible assets		
II.	TANGIBLE ASSETS	19,080,427	19,862,304
II.1.	Land		
II.2.	Buildings and constructions	6,172,400	6,526,476
II.3.	Plant and equipment	4,868,663	5,682,793
II.4.	Vehicles	248,354	142,116
II.5.	Other property, plant and equipment	731,214	687,368
II.6.	Construction in progress	7,056,602	6,823,551
II.7.	Other tangible assets	3,194	
III.	FINANCIAL ASSETS	20,276	
III.1.	Amounts receivable after one year	20,276	
B.	CURRENT ASSETS	18,349,206	15,566,263
I.	INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS	6,157,758	7,765,591
I.1.	Inventories	6,031,528	7,536,283
I.1.1.	Raw materials and components	4,798,722	6,328,963
I.1.2.	Work in progress	49,364	41,238
I.1.3.	Finished products	1,183,442	1,048,914
I.1.4.	Goods for resale		117,168
I.2.	Prepayments	126,230	229,308
I.3.	Contracts in progress		
II.	AMOUNTS RECEIVABLE WITHIN ONE YEAR	11,218,118	5,906,573
II.1.	Trade amounts receivable	10,646,757	5,587,500
II.2.	Receivables from subsidiaries and associates		
II.3.	Other amounts receivable	571,361	319,073
III.	OTHER CURRENT ASSETS		
IV.	CASH AND CASH EQUIVALENTS	973,330	1,894,099
	TOTAL ASSETS:	56,293,943	35,610,196



NO.	EQUITY AND LIABILITIES	31.12.2004	31.12.2003
C.	EQUITY	29,311,852	28,376,713
I.	CAPITAL	24,408,431	24,408,431
I.1.	Authorised (subscribed)	24,408,431	24,408,431
II.	REVALUATION RESERVE (RESULTS)		
III.	RESERVES	12,481,578	12,240,555
III.1.	Legal reserve	2,440,843	2,440,843
II.2.	Reserve for acquiring own shares		
III.3.	Other reserves	10,040,735	9,799,712
IV.	RETAINED EARNINGS (LOSSES)	(7,578,157)	(8,272,273)
IV.1.	Profit (loss) of the reporting year	935,139	241,023
IV.2.	Profit (loss) of the previous year	(8,513,296)	(8,513,296)
D.	GRANTS AND SUBSIDIES		
E.	AMOUNTS PAYABLE AND LIABILITIES	26,982,091	7,233,483
I.	PO VIENERIŲ METŲ MOKĖTINOS SUMOS IR ILGALAIKIAI ĮSIPAREIGOJIMAI	17,433,118	150,046
I.1.	Financial debts	17,433,118	150,046
I.1.1.	Leases and similar obligations	35,322	150,046
I.1.1.	To credit institutions	17,397,796	
I.2.	Trade amounts payable		
I.3.	Amounts received in advance		
I.4.	Provisions		
I.5.	Deferred tax liabilities		
I.6.	Other amounts payable and non-current liabilities		
II.	CURRENT AMOUNTS PAYABLE AND LIABILITIES	9,548,973	7,083,437
II.1.	Current portion of non-current debts	1,613,905	262,230
II.2.	Financial debts		
II.3.	Trade amounts payable	2,569,980	2,667,194
II.4.	Amounts received in advance	128,081	93,771
II.5.	Profit tax liabilities	6,389	48,282
II.6.	Liabilities related with labour relations	347,617	397,157
II.7.	Provisions		
II.8.	Other amounts payable and current liabilities	4,883,001	3,614,803
	TOTAL EQUITY AND LIABILITIES:	56,293,943	35,610,196



Income Statement, LTL

According to the International Financial Reporting Standards

No	ITEMS	2005	2004
I.	SALES INCOME	47,075,913	29,347,089
II.	COSTS 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.	PROFIT FROM ORDINARY ACTIVITIES	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.	NET PROFIT (LOSS)	3,857,308	1,007,316
	Earnings per share	0.158	0.041

According to the Lithuanian Business Accounting Standards

No	ITEMS	2004	2003
I.	SALES INCOME	29,071,209	26,091,488
II.	COSTS OF SALES	16,018,597	15,435,792
III.	GROSS PROFIT (LOSS)	13,052,612	10,655,696
IV.	OPERATING COSTS	12,202,690	10,630,304
IV.1.	Sales	5,462,684	3,928,894
IV.2.	General and administrative	6,740,006	6,707,410
V.	PROFIT FROM ORDINARY ACTIVITIES	849,922	19,392
VI.	OTHER ACTIVITIES	558,867	262,417
VI.1.	Income	1,095,423	330,604
VI.2.	Expenses	536,556	68,187
VII.	FINANCING AND INVESTING ACTIVITIES	(432,327)	8,991
VII.1.	Income	66,617	56,640
VII.2.	Expenses	498,944	47,649
VIII.	PROFIT FROM ORDINARY ACTIVITIES	976,462	290,800
IX.	GAIN		
X.	LOSSES		
XI.	PROFIT (LOSS) BEFORE TAX	976,462	290,800
XII.	PROFIT TAX	41,323	49,777
XIII.	NET PROFIT (LOSS)	935,139	241,023



Statement of changes in equity, LTL

According to the International Financial Reporting Standards

	PAID UP AUTHORISED CAPITAL	SHARE PREMIUM	OWN SHARES (-)	LEGAL RESERVES		OTHER RESERVES	RETAINED EARNINGS (LOSSES)	TOTAL
				COMPULSORY	ACQUISITION OF OWN SHARES			
1. BALANCE AS OF 01.01.2004	24,408,431			2,440,843		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								
4. RECALCULATED BALANCE AS OF 01.01.2004	24,408,431			2,440,843		9,799,712	(8,221,350)	28,427,636
5. Acquisition / sales of own shares								
6. Profit / loss, excluded from Income Statement								
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								
10. Formed reserves						241,023	(241,023)	
11. Used reserves								
12. Increase / reduction of authorised capital								
13. BALANCE AS OF 31.12.2004	24,408,431			2,440,843		10,040,735	(7,455,057)	29,434,952
14. Acquisition / sales of own shares								
15. Profit / loss, excluded from Income Statement								
16. Net profit / loss of the reporting period							3,857,308	3,857,308
17. Dividends								
18. Formed reserves								
19. Used reserves						(10,040,735)	10,040,735	
20. Increase / reduction of authorised capital								
21. BALANCE AS OF 31.12.2005	24,408,431			2,440,843			6,442,986	33,292,260



According to the Lithuanian Business Accounting Standards

	PAID UP AUTHORISED CAPITAL	SHARE PREMIUM	OWN SHARES (-)	LEGAL RESERVES		OTHER RESERVES	RETAINED EARNINGS (LOSSES)	TOTAL
				COMPULSORY	ACQUISITION OF OWN SHARES			
1. BALANCE AS OF 31.12.2002	24,408,431			2,440,843		9,313,655	974,226	37,137,155
2. Result of change in accounting policies							(8,460,175)	(8,460,175)
3. Result of correcting essential errors								
4. RECALCULATED BALANCE AS OF 31.12.2002	24,408,431			2,440,843		9,313,655	(7,485,949)	28,676,980
5. Increase / decrease in non-current tangible assets value								
6. Increase / decrease in financial assets value								
7. Acquisition / sales of own shares								
8. Profit / loss, excluded from Income Statement							(53,121)	(53,121)
9. Net profit / loss of the reporting period							241,023	241,023
10. Dividends							(488,169)	(488,169)
11. Other payments								
12. Formed reserves						486,057	(486,057)	
13. Used reserves								
14. Increase / reduction of authorised capital								
15. BALANCE AS OF 31.12.2003	24,408,431			2,440,843		9,799,712	(8,272,273)	28,376,713
16. Increase / decrease in non-current tangible assets value								
17. Increase / decrease in financial assets value								
18. Acquisition / sales of own shares								
19. Profit / loss, excluded from Income Statement								
20. Net profit / loss of the reporting period							935,139	935,139
21. Dividends								
22. Other payments								
23. Formed reserves						241,023	(241,023)	
24. Used reserves								
25. Increase / reduction of authorised capital								
26. BALANCE AS OF 31.12.2004	24,408,431			2,440,843		10,040,735	(7,578,157)	29,311,852



Cash Flow Statement, LTL

According to the International Financial Reporting Standards

No	ITEMS	2005	2004
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	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,)



No	ITEMS	2005	2004
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



According to the Lithuanian Business Accounting Standards

NO	ITEM	2004	2003
I.	CASH FLOWS FROM OPERATING ACTIVITIES		
I.1.	Net profit (loss)	935,139	241,023
I.2.	Depreciation and amortization costs	1,969,618	1,714,686
I.3.	Decrease (increase) in amounts receivable after one year		
I.4.	Decrease (increase) in inventory	1,484,575	36,014
I.5.	Decrease (increase) in advances received	103,078	131,201
I.6.	Decrease (increase) in contracts in progress		
I.7.	Decrease (increase) in trade receivables	(5,059,257)	(4,654,668)
I.8.	Decrease (increase) in amounts receivable from subsidiaries and associates		
I.9.	Decrease (increase) in other amounts receivable	(252,288)	(188,370)
I.10.	Decrease (increase) in other current assets		
I.11.	Increase (decrease) in non-current payables to suppliers and advances received		
I.12.	Increase (decrease) in current payables to suppliers and advances received		
I.13.	Increase (decrease) in profit tax liability	(41,893)	48,282
I.14.	Increase (decrease) in liabilities connected with labour relations	(49,540)	(322,085)
I.15.	Increase (decrease) in profit tax liability		
I.16.	Increase (decrease) in other amounts payable and liabilities	1,167,556	2,292,168
I.17.	Elimination of financing and investing activity results	432,327	(8,961)
I.18.	Profit (losses) from transfer of non – current assets	(100,929)	69,853
I.19.	Profit / loss, excluded from Income Statement		(53,121)
	NET CASH FLOWS FROM OPERATING ACTIVITIES	588,386	(693,978)
II.	CASH FLOWS FROM INVESTING ACTIVITIES		
II.1.	Acquisition of non-current assets (excluding investments)	(20,144,809)	(674,393)
II.2.	Transfer of non-current assets (excluding investments)	415,772	500
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	58,683	134
II.8.	Other increase in cash flows from investing activities		
II.9.	Other decrease in cash flows from investing activities		
	NET CASH FLOWS FROM INVESTING ACTIVITIES	(19,670,354)	(673,759)



No	ITEM	2004	2003
III.	CASH FLOWS FROM FINANCING ACTIVITIES		
III.1.	Cash flows related to enterprise owners:	(310)	(490,254)
III.1.1.	Emission of shares		
III.1.2.	Owners' contributions against losses		
III.1.3.	Purchase of own shares		
III.1.4.	Dividends paid	(310)	(490,254)
III.2.	Cash flows arising from other financing sources	18,161,509	(123,132)
III.2.1.	Increase in financial debts	18,899,764	
III.2.1.1.	Loans received	18,899,764	
III.2.1.2.	Issue of bonds		
III.2.2.	Decrease in financial debts	(707,055)	(168,952)
III.2.2.1.	Loans repaid		
III.2.2.2.	Purchase of bonds		
III.2.2.3.	Interest paid	(442,038)	(36,828)
III.2.2.4.	Payments of lease (finance lease) liabilities	(265,017)	(132,124)
III.2.3.	Payments of lease (finance lease) liabilities		
III.2.4.	Decrease in other enterprise liabilities		
III.2.5.	Other increase in cash flows from financial activities		45,820
III.2.6.	Other decrease in cash flows from financial items	(31,200)	
	NET CASH FLOWS FROM FINANCING ACTIVITIES	18,161,199	(613,386)
IV.	CASH FLOWS FROM EXTRAORDINARY ITEMS		
IV.1.	Increase in cash flows from extraordinary items		
IV.2.	Decrease in cash flows from extraordinary items		
	NET CASH FLOWS FROM FINANCING ACTIVITIES		
V.	THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS BALANCE		
VI.	NET INCREASE (DECREASE) IN CASH FLOWS	(920,769)	(1,981,123)
VII.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	1,894,099	3,875,222
VIII.	CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	973,330	1,894,099

**39. Comments on the financial statements**

Explanatory Notes to the financial statements of AB “Vilniaus degtinė” are attached to the Annual Prospectus – Report (Annex 1 – Independent auditor’s opinion and the financial statements as of 31 December 2005, p. 11 – 35).

40. Activity Report prepared by the issuer’s Board or any other managing body performing its functions

The Activity Report of AB “Vilniaus degtinė” is attached to the Annual Prospectus – Report as Annex 2.

41. Information about the audit

The audit of the Balance Sheet as of 31 December 2005 and the Income Statement of the year then ended, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes of AB “Vilniaus degtinė” was performed by Artūras Kapitanovas, auditor of the audit firm UAB “Mokesčių ekspertų biuras” (auditor’s certificate No. 000115).

Information about the audit firm that has conducted the audit

Address	Gedimino Ave. 26, LT-01104 Vilnius
Telephone	(+370~5) 212 36 12
Fax	(+370~5) 212 36 08
Email address	
Code	1254 05826
Audit firm’s certificate No.	000407

In the auditor’s opinion, the financial statements for 2005 in all material respects give a true and fair view of the financial status of the AB “Vilniaus degtinė” and of the results of its operations and its cash flows as of 31 December 2005 in accordance with the International Financial Reporting Standards.

The audit was completed on 28 February 2006.

The Auditor’s Report is attached to the Annual Prospectus – Report (Annex 1 – Independent auditor’s opinion and the financial statements as of 31 December 2005, p. 3).



VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

The Company is managed through the general shareholders' meeting; it has a single person managing body, Director General, a collegial supervisory body, the Supervisory Board, and a collegial managing body, the Board.

The Company's Supervisory Board of 3 members is elected for a term of four years by the General Meeting. The Supervisory Board elects and removes from office members of the Board. The Company's Board consists of 5 members.

The Board elects and removes from office the Company's Director General, sets its salary and other terms of the Employment Contract, approves job descriptions, gives incentives and imposes penalties.

42. Members of the managing bodies

42.1. Position held, names and surnames, data about participation in the issuer's authorized capital

Table 42.1.1. Members of the Company's Supervisory Board, the Board, and the Administration

Name, surname	Position held	Share of the capital/ votes held, %
THE SUPERVISORY BOARD		
Rūta Plungaitė	Chairperson	-
Tomasz Kowalski	Member	-
Dariusz Jamiola	Member	-
THE BOARD		
Darius Žaromskis (Chairman of the Board from 04.08. 2005 and from 11.08.2005)	Chairman	19.99
Danas Kerbelis (until 04.08. 2005, newly elected on 11.04.2006)	Member	
Andrėjus Galuška	Member	-
Raimundas Čičirka (Chairman of the Board until 11.08. 2005)	Member	-
Audra Jauniškienė (from 11.04.2006)	Member	
Marius Šulčys (until 11.04.2006)	Member	-
Pranas Januševičius (until 11.04. 2006)	Member	-
THE ADMINISTRATION		
Danas Kerbelis (from 18.07.2005)	Director General	-
Audra Jauniškienė (from 01.03.2005)	Finance and Administration Director	-
Darius Žaromskis (until 18.07.2005)	Director General	-
Raimonda Palionienė (until 01.03.2005)	Finance and Administration Director	-

42.2. Data about the Chairman of the Board, the Head of the Administration and the Chief Financier (Finance Director)

Danas Kerbelis – Director General. Higher education. Profession: construction engineer– economist. From October 1994 to 1997 was Commercial Director of UAB “Anta”, from 1997 to June 1998 worked as a forwarding manager for UAB “Kaminera”, from 1998 to June 2003 was Director of UAB “Belvedere Baltic”. From December 2003 to April 2004 occupied the position of the Assistant to Director General for procurement of AB “Vilniaus degtinė”. From April 2004 to July 2005 – Commercial Director of AB “Vilniaus degtinė” and from 18 July 2005 – the Company's Director General.

Darius Žaromskis – Chairman of the Board from 11 August 2005. Higher education. Profession: lawyer. Until August 2005 he was Director of UAB “Kaminera” and UAB “Kamineros grupė”. From November 2003 to July 2005 worked as Director General of AB “Vilniaus degtinė”.



Raimundas Čičirka – Chairman of the Board until 11 August 2005. Higher education. Profession: zoo-engineer. From 1997 until November 1999, manager of UAB “Belvedere Baltic”, from November 1999 Director General of UAB “Belvedere prekyba”.

Audra Jauniškienė – Finance and Administration Director. Higher education. Profession: engineer-economist. From February 1994 to April 1997 was as an accountant with UAB “Bazilė”, from May 1997 to January 1999 held the position of Chief Accountant at A. Eigminienė’s individual enterprise; from January 1999 to July 2000 was senior accountant with UAB “Henkel Lietuva”, from July 2000 to April 2005 worked as Chief Financier of UAB “Kaminera”. From 1 March 2005, Finance and Administration Director for AB “Vilniaus degtinė”.

42.3. Data about participation in the activities of other companies, enterprises and organizations (name of the company, enterprise, or organization and position held); capital and votes exceeding 5 percent, held in other enterprises (percentage)

Table 42.3.1. Participation in the activities of other companies, enterprises and organizations; capital and votes exceeding 5 percent, held in other enterprises (percentage)

Name, surname	Name of the company, enterprise, organization; position held	Share of capital and votes held in other enterprises, %
Rūta Plungaitė	UAB “Kaminera”, Deputy Director	-
Tomasz Kowalski	Sobieski Sp.z.o.o., Commercial Director	
Dariusz Jamiola	Sobieski Sp.z.o.o., Finance Director	
Raimundas Čičirka	UAB “Belvedere prekyba”, Director General	-
Danas Kerbelis	Lithuanian-French joint venture UAB “Belvedere Baltic”, Director	-
Marius Šulčys	UAB “Belvedere prekyba”, Commercial Director	-
Andrėjus Galuška	UAB “Belvedere prekyba”, Chief Financier	-
Pranas Januševičius	UAB “Belvedere prekyba”, Managing Director for Vilnius region	-
Darius Žaromskis	UAB “Kamineros grupė”	50.0
	AB printing house “Spindulys”, Member of the Board	8.10
	UAB “Svilita”	100.0
	AB “Biržų agroservisas”	20.0
	UAB “Bagem”	25.0
	AB “Sanitas”, member of the Supervisory Board	-
	AB “Umega”, Member of the Board	5.7 / 6.3
	UAB “Jungtinis turto centras”	25.0
Audra Jauniškienė	-	-

42.4. Data about the effective conviction of members of managing bodies for the economic crimes and crimes against property, business procedures and finances

Members of managing bodies are not convicted and have never been convicted for economic crimes and crimes against property, business procedures and finances.

42.5. Data about the beginning and the end of the term of office of each managing body member.

Table 42.5.1. Data about the beginning and the end of the term of office of each managing body member.

Name, surname	Beginning of the term in office	End of the term in office
THE SUPERVISORY BOARD		
Rūta Plungaitė	13.11.2003	2007
Tomasz Kowalski	29.04.2004	2007
Dariusz Jamiola	29.04.2004	2007



Name, surname	Beginning of the term in office	End of the term in office
THE BOARD		
Darius Žaromskis	04.08.2005	2007
Raimundas Čičirka	13.11.2003	2007
Andrėjus Galuška	13.11.2003	2007
Audra Jauniškienė	11.04.2006	2007
Danas Kerbelis	13.11.2003	04.08.2005
	11.04.2006	2007
Marius Šulčys	13.11.2003	11.04.2006
Pranas Januševičius	13.11.2003	11.04.2006

43. Information about payments and loans extended to the members of managing bodies

Table 43.1.1. Tantiemes, salaries and other payments made from the Company's profit during the reporting period

	Salaries paid, LTL	Tantiemes, LTL	Other payments, LTL
Members of the Supervisory Board	-	-	-
Members of the Board	21,372	-	-
Members of the Administration	126,766	-	-
Each member of the Board (average)	4,274	-	-
Each member of the Administration (average)	63,383	-	-

43.2. Total amounts of tantiemes, salaries and other payments made during the accountable period from profit to members of the Supervisory Board, the Board and the administration, received from enterprises wherein the issuer's part in the authorized capital makes up more than 20 percent

There were none.

43.3. Loans granted to members of managing bodies over the accountable period, guarantees and warranties given with respect to fulfilment of their obligations

There were none.

44. Transactions with connected persons

No transactions have been concluded at a lower or a higher price than the market price.



VII. UPDATED AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND ITS PROSPECTS

45. Most recent developments in the issuer's activities

During the first quarter of 2006, AB “Vilniaus degtinė” sold 2.6 million litres of its produce, 2.1 times more than during the same period in 2005. The revenues of the first quarter of 2006 amounted to LTL 14,304,800, generating a profit before taxes of LTL 2,406,500.

The meeting of the Company's Supervisory Board held on 11 April 2006 decided to remove from office the Board members Pranas Januševičius and Marius Šulčis and to elect Danas Kerbelis, the Company's Director General, and Audra Jauniškienė, the Company's Finance and Administration Director, new members of the Board.

The Annual General Meeting of AB “Vilniaus degtinė” shareholders was held on 12 April 2006. It resolved to approve the audit report, to approve the Company's Annual Report for the year 2005, and the annual financial statements of 2005. The Company's financial statements showed that as of 31 December 2005 the Company's assets constituted LTL 75,443,609; shareholders' equity amounted to LTL 33,292,260, and the net profit was LTL 3,857,308. The AGM approved the following appropriation of the year's profit:

I. Unappropriated result (profit (loss)) at the beginning of the reporting period	(LTL 7,455,057)
II. Net result of the reporting period (profit (loss))	LTL 3,857,308
II a. Transfers from reserves	LTL 10,040,735
III. Appropriated result (profit (loss)) at the end of the reporting period	LTL 6,442,986
IV. Shareholders' contribution to cover the losses	none
V. Transfers from reserves	none
VI. Profit to be appropriated	LTL 6,442,986
VII. Profit appropriation:	none
VII.1. To legal reserve	none
VII.2. To other reserves	none
VII.3. Dividend	none
VII.4. Other payments from profit	none
VIII. Unappropriated result (profit (loss)) brought forward	
at the end of the reporting period	LTL 6,442,986

The AGM did not approve the proposal of the Board to elect the audit firm UAB “Mokesčių ekspertų biuras” the Company's auditor. The meeting elected the audit firm UAB “KPMG Baltics” to serve as the Company's auditor.

46. Material events in the issuer's activity

On 25 March 2005, the Extraordinary General Meeting (EGM) of AB “Vilniaus degtinė” was held. The EGM resolved to remove the Company's auditor, UAB “KPMG Lietuva”, and elected the audit firm UAB “Mokesčių ekspertų biuras” the Company's auditor.

On 28 April 2005, the Annual General Meeting of the Company's shareholders took place, which resolved to approve the audit report, to approve the Company's Annual Report for the year 2004, the annual financial statements, the allocation of the year's profit (loss) (it was resolved to pay no dividend for the year 2004) and to elect the audit firm UAB “Mokesčių ekspertų biuras” the auditor of AB “Vilniaus degtinė”.

The meeting of the Company's Supervisory Board held on 4 August 2005 passed a decision to remove Danas Kerbelis from the Board members and elect Darius Žaromskis a new Board member.



On 11 August 2005, the Company's Board passed a resolution to remove Raimundas Čičirka from the position of the Chairman of the Board and to elect Darius Žaromskis Chairman of the Board in his stead.

47. Strategy of activity and its prospective changes during current and coming financial (business) years

The production programme for the year 2006 foresees an increase in the sales volumes of 22 percent, compared with that in 2005.

Table 47.1. Production programme for 2006

PRODUCTION	THOUSAND LIT.
Vodka products	7 248.1
bitters	1 361.7
Liqueurs	1 53.3
Gin	39.7
Scottish whisky	2.4
TOTAL	8 805.2

Goals and objectives for the year 2006:

- To further improve the technological process of production, to enrich the assortment of quality products, to put new products into production;
- To increase the storage capacity of rectified ethyl alcohol by building two more containers of 100m³, which will allow to accumulate the necessary amount of various types of ethyl alcohol to be further used for making new products of a different taste;
- To enhance production capacities of the unit producing liqueurs, bitters and highly flavoured vodkas from 2 million litres to 6 million litres per year;
- To replace one worn out bottling and capping machine with a new one, which will enable to use more various types of bottles, improve the capping of the products and increase the bottling capacities.

We plan to replace quite many outdated machines (e.g. banderol and labelling machine, vehicles, etc.). These measures will improve the working conditions and the quality of the products as well as enable to take a better advantage of the production capacities.

As the competition among local producers of alcoholic beverages is constantly growing and the sales of imported products on the local market increase, this year the Company intends to focus on mass advertising, targeted at the final consumer. The major attention will be given to further development of the existing brands of “Sobieski”, “Bajorų”, and “Karvedys”.

This year one of the priorities is enhancement of export. The export to Poland that was started last year will be carried out even more actively. We also envisage expansion of the export market to Latvia, France, and Bulgaria. Bitters are the main products to be launched on the foreign markets, but the brand family will also contain at least one type of vodka.

Under the conditions of an unstable market it is complicated to project possible changes, therefore in 2006 we intend to develop several brands at a time.