

AB Vilniaus Degtinė

Financial statements for the
year ended
31 December 2006

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Company details

AB Vilniaus Degtinė

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Company code: 120057287
Registered office: Panerių st. 47/2, Vilnius, Lithuania

Management

Danas Kerbelis, General Director
Audra Jauniškienė, Finance Director

The Board

Darius Žaromskis
Raimundas Čičirka
Danas Kerbelis
Audra Jauniškienė
Andrejus Galuška

Auditor

KPMG Baltics, UAB

Banks

Bayerische Hypo-und Vereinsbank AG, Vilnius branch
AB SEB Vilniaus Bankas

Board's statement on the accounts

The Board has today discussed and authorized for issue the financial statements and the annual report and has signed the financial statements and report on behalf of the Company.

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

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

Vilnius, 23 February 2007

The Board:

Darius Žaromskis
(Chairman)

Raimundas Čičirka

Danas Kerbelis

Audra Jauniškienė

Andrejus Galuška



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Independent auditor's report to the shareholders of AB Vilniaus Degtinė

We have audited the accompanying financial statements of AB Vilniaus Degtinė ("the Company"), which comprise the balance sheet as at 31 December 2006, the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 6 to 41. The corresponding figures presented are based on financial statements of the Company as at and for the year ended 31 December 2005, which were audited by another auditor whose report dated 28 February 2006, expressed an unqualified opinion on those statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

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

Report on legal and other regulatory requirements

Furthermore, we have read the annual report for the year ended 31 December 2006 set out on pages 42-60 and have not identified any material inconsistencies between the financial information for the year 2006 included in the annual report and the financial statements for the year ended 31 December 2006.

Vilnius, 23 February 2007
KPMG Baltics, UAB


Leif Rehe Hansen
Partner


Ieva Voverienė
Certified Auditor

Balance sheet

as at 31 December

Litas	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	14	18,822,194	17,739,764
Intangible assets	15	16,838,794	17,843,638
Other non-current assets		24,143	25,872
Deferred tax assets	12	399,309	432,761
Total non-current assets		36,084,440	36,042,035
Current assets			
Inventories	16	6,994,649	5,138,277
Prepayments and deferred expenses	17	1,578,708	176,072
Trade receivables	18	28,082,669	24,622,916
Other receivables	19	207,815	199,182
Cash and cash equivalents	20	384,747	7,782,968
Total current assets		37,248,588	37,919,415
TOTAL ASSETS		73,333,028	73,961,450

The notes, set out on pages 11 to 41, are an integral part of these financial statements.

Balance sheet (cont'd)

as at 31 December

Litas	Notes	2006	2005
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	24,408,431	24,408,431
Legal reserve	21	2,440,843	2,440,843
Retained earnings		8,716,239	4,960,827
Total equity		35,565,513	31,810,101
Non-current liabilities			
Interest bearing loans and borrowings	23	11,064,498	14,468,958
Deferred tax liability	12	891,463	803,707
Total non-current liabilities		11,955,961	15,272,665
Current liabilities			
Interest bearing loans and borrowings	23	3,404,461	2,964,186
Trade payables		6,374,199	8,695,203
Advances received		19,990	104,844
Corporate income tax payable	13	259,481	21,910
Other payables	24	15,753,423	15,092,541
Total current liabilities		25,811,554	26,878,684
Total liabilities		37,767,515	42,151,349
TOTAL EQUITY AND LIABILITIES		73,333,028	73,961,450

The notes, set out on pages 11 to 41, are an integral part of these financial statements.

Income statement

for the year ended 31 December

Litas	Notes	2006	2005
Revenue	5	61,349,196	47,075,913
Cost of sales		<u>(29,201,839)</u>	<u>(20,531,588)</u>
Gross profit	5	32,147,357	26,544,325
Other income	9	298,213	361,294
Sales and distribution expenses	6	(16,481,989)	(12,937,965)
Administrative expenses	7	(10,807,147)	(8,554,795)
Other expenses	9	<u>(209,037)</u>	<u>(687,443)</u>
Result from operating activities		4,947,397	4,725,416
Finance income	10	103,139	103,206
Finance expenses	10	<u>(817,189)</u>	<u>(763,575)</u>
Profit before tax		4,233,347	4,065,047
Corporate income tax	11	<u>(477,935)</u>	<u>(622,277)</u>
Profit for the year		<u>3,755,412</u>	<u>3,442,770</u>
Basic earnings/ per share	22	0.15	0.14

The notes, set out on pages 11 to 41, are an integral part of these financial statements.

Statement of changes in shareholders' equity

Litas	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
Capital and reserves at 1 January 2005		24,408,431	2,440,843	10,040,735	(7,455,057)	29,434,952
Change in accounting policy (refer to note 4)					(1,067,621)	(1,067,621)
Capital and reserves at 1 January 2005, restated		24,408,431	2,440,843	10,040,735	(8,522,678)	28,367,331
Transfer of reserves				(10,040,735)	10,040,735	0
Profit for the year 2005					3,442,770	3,442,770
Capital and reserves at 31 December 2005, restated		24,408,431	2,440,843	0	4,960,827	31,810,101
Profit for the year 2006					3,755,412	3,755,412
Capital and reserves at 31 December 2006	21	24,408,431	2,440,843	0	8,716,239	35,565,513

The notes, set out on pages 11 to 41, are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December

Litas	2006	2005
Net result (profit)	3,755,412	3,442,770
Adjustments for:		
Depreciation and amortisation	2,931,916	3,029,278
Impairment on construction in progress	181,020	337,753
Impairment of trade and other receivables	(3,974,919)	(383,604)
Impairment of inventories	(111,377)	(319,529)
Net finance costs	703,943	664,482
Gain (loss) on disposal of fixed assets	(17,969)	171,766
Income tax expenses	477,935	622,277
Net cash inflow from ordinary activities before any change in working capital	3,945,961	7,565,193
Change in inventories	(1,732,395)	612,398
Change in prepayments and deferred expenses	(1,401,747)	(52,411)
Change in trade and other receivables	506,540	(13,754,022)
Change in trade and other payables	(1,754,631)	15,966,328
Net cash inflow from ordinary activities	(436,272)	10,337,486
Profit tax paid	(119,156)	(112,711)
Net cash inflow from operating activities	(555,428)	10,224,775
Interest received	103,972	108,094
Proceeds from disposal of fixed assets	24,448	52,928
Acquisition of property, plant and equipment	(3,161,168)	(1,119,150)
Acquisition of intangible fixed assets	(48,433)	(78,055)
Net cash inflow from investing activities	(3,081,181)	(1,036,183)
Repayment of borrowings	(2,928,837)	(1,501,968)
Payment of finance lease liabilities	(35,348)	(111,911)
Interest paid	(797,427)	(764,639)
Dividends paid	0	(436)
Net cash inflow/(outflow) from financing, net	(3,761,612)	(2,378,954)
Net cash inflow/outflow from operating activities, investing activities and financing	(7,398,221)	6,809,638
Cash and cash equivalents, opening balance	7,782,968	973,330
Cash and cash equivalents at 31 December	384,747	7,782,968

The notes, set out on pages 11 to 41, are an integral part of these financial statements.

Notes to the accounts

1 Reporting entity

AB Vilniaus Degtinė (hereinafter the Company) was registered on 8 May 1995 and its head office is domiciled in Vilnius, Lithuania. The Company has a branch, located in Obeliai, Rokiškis district.

AB Vilniaus Degtinė is a Lithuanian public listed Company, with shares listed on Vilnius Stock exchange owned by the following shareholders:

Shareholder	Number of shares	Nominal value, Litas	Total value, Litas
Sobieski Sp.z.o.o.	16,668,632	1	16,668,632
Darius Žaromskis	4,881,686	1	4,881,686
Other minor shareholders	2,858,113	1	2,858,113
Total capital	24,408,431	1	24,408,431

The Company is primarily involved in the production of alcohol beverages: vodkas, bitter and sweet vodkas, liqueurs and other alcohol beverages. The facilities for alcohol beverage production are located in Vilnius; however, the spirit production facilities are located in the branch.

The Company has major sales in the local market, which is increasing due to aggressive advertising campaigns, especially of Sobieski brand vodkas.

AB Vilniaus Degtinė employed 245 staff members as at 31 December 2006 (218 staff members as at 31 December 2005).

2 Summary of significant accounting policies

Statement of compliance

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

The Board has authorized the financial statements for issue on 23 February 2007 and signed the financial statements on behalf of the Company.

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Basis of preparation

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

The preparation of the financial statements in conformity with IFRSs, as adopted by the European Union, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs, as adopted by the European Union, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Company, as set out below, have been consistently applied, except for the changes in the accounting policies for multiple usage tare, which have been adjusted retrospectively in the financial statements for the year ended 31 December 2006 (refer to note 4).

Foreign currency

Foreign currency transactions

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Financial instruments

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

Other financial instruments

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

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

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

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

Property, plant and equipment

Recognition and measurement

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

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

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

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

- Buildings and constructions 12-20 years
- Plant and machinery 5-20 years
- Motor vehicles 4-10 years
- Other assets 5-15 years

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Intangible assets

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

Amortisation is charged to the income statement on a straight-line basis. The amortisation rates of intangible assets can be specified as follows:

- Software and licenses 3 years
- Sobieski license 20 years

Leased assets

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

Inventories

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

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

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

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

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Change in accounting policy

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

The accounting policy has been applied retrospectively and comparatives have been adjusted. The change in accounting policy and the impact on the financial statements are disclosed in note 4.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Impairment (cont'd)

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

Dividends

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

Liabilities

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Provisions

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

Revenue

Sales of goods

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

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

Services rendered, assets disposed

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

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

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

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Expenses

Operating expenses

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

Operating lease payments

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

Finance lease payments

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

Net financing costs

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

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Income tax

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

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

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

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

Segment reporting

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

Earnings per share

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

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

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

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

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital. The standards are not expected to have any impact on the financial statements.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has not yet completed its analysis of the impact of the new Standard.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. IFRIC 8 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

Notes to the accounts

2 Summary of significant accounting policies (cont'd)

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). IFRIC 10 is not relevant to the Company's operations as the Company has not any investments in equity instruments.
- IFRIC 11 IFRS 2 – Company and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations.

3 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

Notes to the accounts

3 Critical accounting estimates and judgments (cont'd)

Impairment losses on receivables

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

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

4 Corrections of previous periods

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

Litas	Before adjustment	Impact of adjustment	After adjustment
Shareholders equity	33,292,260	(1,482,159)	31,810,101
Result for the year 2005	3,857,308	(414,538)	3,442,770
Total assets	75,443,609	(1,482,159)	73,961,450

Notes to the accounts

5 Segment reporting

The Company is engaged in production and distribution of alcohol beverages, rectified and denaturized alcohol, which are three identifiable business segments of the Company.

Results by business segments for the year ended 31 December 2006 can be specified as follows:

Litas	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	60,215,392	1,026,595	107,209		61,349,196
Segment result	31,810,776	290,013	46,568		32,147,357
Operating expenses					(27,289,136)
Other activity, net					89,176
Result from operating activities					4,947,397
Net financing costs					(714,050)
Result before tax					4,233,347
Income tax expense					(477,935)
Net result					3,755,412
Segment assets					73,333,028
Total liabilities					37,767,515
Capital expenditure					3,209,601
Depreciation and amortisation					2,931,916

Notes to the accounts

5 Segment reporting (cont'd)

Results by business segments for the year ended 31 December 2005 can be specified as follows:

Litas	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	41,580,457	770,646	143,224	4,581,586	47,075,913
Segment result	21,638,587	268,690	60,013	4,577,035	26,544,325
Operating expenses					(21,492,760)
Other activity, net					(326,149)
Result from operating activities					4,725,416
Net financing costs					(660,369)
Result before tax					4,065,047
Income tax expense					(622,277)
Net result					3,442,770
Segment assets					73,961,450
Total liabilities					42,151,349
Capital expenditure					1,197,205
Depreciation and amortisation					3,029,278

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

The Company operates in two geographical segments – foreign and local markets. These segments are distinguished by the geographical location of its customers. The Company's major sales are commenced in the Lithuanian market. Sales to foreign market amounted to 652 thousand Litass in 2006 (631 thousand Litass in 2005).

Notes to the accounts

Litas	2006	2005
6 Sales and distribution expenses		
Advertising expenses	8,229,401	5,187,436
Marketing expenses	6,611,514	6,200,873
Personnel expenses	730,406	572,429
Transportation expenses	582,607	310,189
Market research expenses	146,442	86,908
Packaging expenses	102,798	61,642
Other	78,821	518,218
Total sales and distribution expenses	16,481,989	12,937,965

Advertising expenses include advertising through media, advertising in supermarkets, restaurant bars, cafes and other advertising expenses.

Litas	2006	2005
7 Administrative expenses		
Personnel expenses	4,097,265	3,100,823
Repair and maintenance	1,343,471	566,881
Amortisation of intangible assets	1,053,277	1,078,451
Operating taxes and other taxes	930,159	772,028
Depreciation of tangible assets	594,824	661,247
Consulting and training expenses	468,225	170,715
Maintenance of motor vehicles	272,332	241,578
Support and allowances	264,011	249,919
Security expenses	259,276	257,657
Impairment of construction in progress	181,020	362,040
Telecommunication and IT maintenance expenses	171,890	106,078
Utilities	166,189	121,454
Representation expenses	128,690	9,918
Write down allowance of inventories	(111,377)	(319,529)
Other	987,895	1,175,535
Total administrative expenses	10,807,147	8,554,795

Notes to the accounts

Litas	2006	2005
8 Personnel expenses		
Wages and salaries	5,460,510	4,048,215
Compulsory social security contributions	1,704,273	1,269,212
Total personnel expenses	7,164,783	5,317,427

Personnel expenses for the year 2006 and 2005 include change in accrued vacation compensations.

Staff costs for the year 2006 include wages and salaries for the management of 402 thousand Litai (2005: 384 thousand Litai).

In 2006 there were no tantjemes paid to the members of the Supervisory Council and the Board.

The Company employed 245 employees as at 31 December 2006 (218 employees as at 31 December 2005).

Litas	2006	2005
9 Other income and expenses		
Sales of materials and spare parts	167,197	199,912
Rent of premises	71,761	48,931
Other income	59,255	112,451
Total other income	298,213	361,294
Cost of sales of materials and spare parts	196,728	590,581
Other expenses	12,309	96,862
Total other expenses	209,037	687,443
Other operating income and expenses, net	89,176	(326,149)

Notes to the accounts

Litas	2006	2005
10 Finance income and expenses		
Interest income	103,139	98,175
Foreign exchange income	0	3,581
Other income	0	1,450
Total finance income	103,139	103,206
Interest on loans and lease liabilities	807,083	763,575
Foreign exchange loss	10,106	0
Total finance expenses	817,189	763,575
Finance income and expenses, net	(714,050)	(660,369)

Litas	2006	2005
11 Corporate income tax expenses		
Current tax	356,727	128,231
Change in deferred tax	121,208	494,046
Total income tax expense	477,935	622,277

The reconciliation of the effective tax rate is as follows:

Litas	2006		2005	
Result before tax		4,233,348		4,065,047
Income tax using the effective tax rate	19.0%	804,336	15.0%	609,757
Written-off multiple usage tare	(6.7%)	(281,608)	1.5%	62,181
Expenses for charity	(1.0%)	(44,042)	(0.9%)	(36,044)
Other non-taxable income	(0.0%)	(2,043)	(0.0%)	(218)
Written-off inventories	0.1%	3,606	0.0%	115
Fines paid	0.1%	4,487	0.0%	137
Non-deductible representation expenses	0.2%	6,891	0.2%	7,012
Non-deductible value added tax	0.2%	6,912	0.0%	1,148
Other non-deductible expenses	0.3%	11,128	0.5%	(21,811)
Effect of change in tax rate	(0.7%)	(31,732)		
	11.3%	477,935	15.3%	622,277

Notes to the accounts

12 Deferred tax	2006		2005	
	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
Litas				
Valuation allowances	2,510,660	376,599	2,781,120	417,168
Accrued expenses	151,400	22,710	103,955	15,593
Total deferred tax assets		399,309		432,761
Difference in depreciation of tangible assets	(3,552,285)	(532,843)	(3,724,013)	(558,602)
Carrying amount of non-current assets for which investment relief was used	(1,299,630)	(194,944)	(1,634,031)	(245,105)
Difference in depreciation of intangible assets	(1,091,173)	(163,676)		
Total deferred tax liability		(891,463)		(803,707)
Net deferred tax		(492,154)		(370,946)

The current profit tax rate for the year ended 31 December 2006 is 15% (2005: 15%). According to the amended Lithuanian tax legislation, for the taxable periods starting from 1 January 2006 to 31 December 2007, companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred taxes as at 31 December 2006 and as at 31 December 2005 do not take into account the additional social tax imposed on taxable profits because it was considered to be immaterial.

The Company does not have any tax losses to be carried forward as at 31 December 2006.

The movement in deferred tax is as follows:

Litas	2006	2005
Deferred tax asset (liability) at 1 January	(370,946)	123,100
Change in deferred tax	(121,208)	(494,046)
Deferred tax liability at 31 December	(492,154)	(370,946)
Litas	2006	2005
Net income tax asset (liability) at 1 January	(21,910)	(6,389)
Corporate income tax for the period	(356,727)	(128,232)
Income tax paid	119,156	112,711
Net income tax liability at 31 December	(259,481)	(21,910)

Notes to the accounts

14 Property, plant and equipment

Litas	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construc- tion in progress	Other tangible assets	Total
Cost at 1 January 2005	11,023,481	13,703,826	1,141,896	1,733,333	7,080,889	3,194	34,686,619
Additions	148,097	681,923	113,516	120,185	34,767	20,662	1,119,150
Disposals	0	(1,571,966)	(65,624)	(129,895)	(25,528)	0	(1,793,013)
Reclassifications	3,459,709	(523,735)	0	530,084	(3,462,864)	(3,194)	0
Transfer from inventories	0	0	0	53,461	0	0	53,461
Cost at 31 December 2005	14,631,287	12,290,048	1,189,788	2,307,168	3,627,264	20,662	34,066,217
Accumulated depreciation at 1 January 2005	4,851,081	8,693,442	893,542	1,143,840	24,287	0	15,606,192
Depreciation for the year	644,114	1,033,953	67,024	205,736	0	0	1,950,827
Impairment loss	0	0	0	0	362,040	0	362,040
Disposals	0	(1,384,153)	(63,478)	(120,688)	(24,287)	0	(1,592,606)
Reclassifications	0	(380,854)	0	380,854	0	0	0
Accumulated depreciation at 31 December 2005	5,495,195	7,962,388	897,088	1,609,742	362,040	0	16,326,453
Net book value at 31 December 2005	9,136,092	4,327,660	292,700	697,426	3,265,224	20,662	17,739,764
Cost at 1 January 2006	14,631,287	12,290,048	1,189,788	2,307,168	3,627,264	20,662	34,066,217
Additions	345,865	2,144,835	323,221	204,233	12,000	131,014	3,161,168
Disposals	(139,553)	(118,368)	(315,400)	(124,939)	(3,843)	0	(702,103)
Reclassifications	0	9,912	10,000	750	0	(20,662)	0
Cost at 31 December 2006	14,837,599	14,326,427	1,207,609	2,387,212	3,635,421	131,014	36,525,282
Accumulated depreciation at 1 January 2006	5,495,195	7,962,388	897,088	1,609,742	362,040	0	16,326,453
Depreciation for the year	543,124	1,044,397	73,158	217,960	0	0	1,878,639
Impairment loss for the year	0	0	0	0	181,020	0	181,020
Disposals	(139,550)	(105,210)	(315,394)	(122,870)	0	0	(683,024)
Accumulated depreciation at 31 December 2006	5,898,769	8,901,575	654,852	1,704,832	543,060	0	17,703,088
Net book value at 31 December 2006	8,938,830	5,424,852	552,757	682,380	3,092,361	131,014	18,822,194

The unfinished construction is related to the building of soft drinks workshop, which, due to the change of the company's strategic plans, was suspended in 1994. The related impairment loss is being recognised based on the annual impairment tests.

Notes to the accounts

14 Property, plant and equipment (cont'd)

Depreciation has been allocated as follows:

Litas	2006	2005
Cost of sales	1,193,172	1,247,509
Cost of finished production	84,527	36,203
Administrative and other expenses	600,940	667,115
Total	1,878,639	1,950,827

15 Intangible fixed assets

Litas	Patents, licenses	Software	Other	Total
Cost at 1 January 2005	210,607	565,531	18,913,672	19,689,810
Additions during the year	27,648	50,407	0	78,055
Disposals	(1,380)	(83,376)	0	(84,756)
Cost at 31 December 2005	236,875	532,562	18,913,672	19,863,109
Accumulated amortisation at 1 January 2005	184,091	346,457	315,228	845,776
Amortisation for the year	16,493	116,275	945,683	1,078,451
Disposals	(1,380)	(83,376)	0	(84,756)
Accumulated amortisation at 31 December 2005	199,204	379,356	1,260,911	1,839,471
Net book value at 31 December 2005	37,671	153,206	17,562,761	17,843,638
Cost at 1 January 2006	236,875	532,562	18,913,672	19,683,109
Additions during the year	0	48,433	0	48,433
Disposals	(22,360)	(133,106)	0	(155,466)
Cost at 31 December 2006	214,515	447,889	18,913,672	19,576,076
Accumulated amortisation at 1 January 2006	199,204	379,356	1,260,911	1,839,471
Amortisation for the year	17,924	89,669	945,684	1,053,277
Disposals	(22,360)	(133,106)	0	(155,466)
Accumulated amortisation at 31 December 2006	194,768	335,919	2,206,595	2,737,282
Net book value at 31 December 2006	19,747	111,970	16,707,077	16,838,794

All amortisation expenses are included under operating expenses.

Notes to the accounts

Litas	2006	2005
16 Inventories		
Raw materials	5,934,478	4,692,473
Finished production	969,727	506,844
Work in progress	47,923	22,208
Goods for resale	55,583	41,191
Total inventories before write-down allowance	7,007,711	5,262,716
Write-down allowance	(13,062)	(124,439)
Total inventories after write-down allowance	6,994,649	5,138,277
Litas	2006	2005
17 Prepayments and deferred expenses		
Prepayments to suppliers	756,840	11,604
Deferred advertising costs	657,880	11,323
Deferred insurance and subscription	163,988	80,934
Other	0	72,211
Total prepayments and deferred expenses	1,578,708	176,072
Litas	2006	2005
18 Trade receivables		
Trade receivables	29,155,088	26,041,094
Impairment allowance for bad debts	(1,072,419)	(1,418,178)
Net trade receivables	28,082,669	24,622,916

Notes to the accounts

18 Trade receivables (cont'd)

Change in impairment allowance of receivables was as follows:

Litas	2006	2005
Impairment allowance for bad debts as at 1 January	(1,418,178)	(1,696,532)
Reverse of impairment allowance for bad debts written off	345,759	278,354
Impairment allowance for bad debts as at 31 December	(1,072,419)	(1,418,178)

Litas	2006	2005
19 Other receivables		
Prepayment to Tax authorities	172,481	172,481
Other receivables	35,334	26,701
Doubtful receivables	885,209	4,515,209
Total other receivables before write down allowance	1,093,024	4,714,391
Write down allowance	(885,209)	(4,515,209)
Total other receivables after write down allowance	207,815	199,182

The prepayment to the Tax authorities is a guarantee for payment of excise tax on exported production.

Change in impairment allowance of receivables was as follows:

Litas	2006	2005
Impairment allowance for bad other receivables as at 1 January	(4,515,209)	(4,620,459)
Reverse of impairment allowance for bad debts written off	3,630,000	105,250
Impairment allowance for bad other receivables as at 31 December	(885,209)	(4,515,209)

The reverse of impairment allowance, amounting to 3,630,000 Litas, is related to the receivables from Tax authorities, which have been written off in accordance with Court decision.

Notes to the accounts

Litas	2006	2005
20 Cash and cash equivalents		
Cash at bank and in hand	384,747	7,782,968
Total cash and cash equivalents	384,747	7,782,968

As at 31 December 2006, current and future cash inflows to the Bayerische Hypo-und Vereinsbank AG, Vilnius branch accounts are pledged to secure the bank loans (refer to note 27).

21 Capital and reserves

Share capital

The share capital comprises 24,408,431 ordinary shares with a nominal value of 1 Litas each and the total share capital of 24,408,431 Litas, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to receive dividends as declared from time to time and to capital repayment in case and to a share of residual assets. One ordinary share gives a right to one vote at the shareholders' meeting.

Legal reserve

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

Notes to the accounts

22 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Number of shares	24,408,431	24,408,431
Net result for the period, attributable to the equity holders, Litas	3,755,412	3,442,770
Profit (loss)/earnings per share, Litas	0.15	0.14

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

Litas	2006	2005
23 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	11,064,498	14,468,958
Total non-current	11,064,498	14,468,958
Current liabilities		
Bank loans	3,404,461	2,928,838
Leasing obligations	0	35,348
Total current	3,404,461	2,964,186
Grand total	14,468,959	17,433,144

The outstanding finance leasing liability as at 31 December 2005 amounted to 35 thousand Litas. In 2006 the Company fully repaid the lease liability to UAB SEB VB Lizingas.

Notes to the accounts

23 Interest bearing loans and borrowings (cont'd)

Terms and repayment schedule:

Litas	Total	Up to 1 year	1 – 2 years	2 – 5 years	Over 5 years
Overdraft of 5,000,000 Litas – variable at the rate of 1 month' Vilibor + 1.6%	0				
Loan of 4,930,000 EUR (17,022,304 Litas) – variable at the rate of 3 months' EUR LIBOR + 1.9%	14,468,959	3,404,461	3,404,461	7,660,037	0
Total	14,468,959	3,404,461	3,404,461	7,660,037	0

The Company has a loan and overdraft issued by Bayerische Hypo-und Vereinsbank AG, Vilnius branch. As at 31 December 2006, the effective interest rates of the Company's borrowings are 5.6% and 5.5% p.a. correspondingly. The fair value of the financial instruments does not differ materially from their carrying amounts as at 31 December 2006.

In order to secure bank loans, the Company has pledged tangible and intangible fixed assets, inventories, cash and cash inflows to the bank accounts and trade receivables. For further comments refer to note 27.

Litas	2006	2005
24 Other payables		
Payable excise tax	11,243,599	11,877,263
Payable VAT	3,208,273	2,405,195
Vacation reserve	640,103	439,295
Taxes payable	235,679	27,041
Accrued expenses	118,291	83,791
Other payables	307,478	259,956
Total other payables	15,753,423	15,092,541

Notes to the accounts

25 Financial instruments

Exposure to credit, liquidity, interest rate and currency exchange risk arises from operational, financing and investing activities of the Company.

Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis.

Liquidity risk

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

Interest rate risk

The Company's borrowings are subject to fixed and variable interest rates related to EURIBOR and VILIBOR.

As at 31 December 2006, the Company did not use any financial instruments to hedge its exposure to the cash flow risk related to debt instruments with the variable interest rates or price risk related to debt instruments with the fixed interest rates.

Foreign exchange risk

The Company's functional currency is Litas. The Company faces foreign currency risk on purchases and borrowings that are denominated in currencies other than Litas and the Euro. The risk related to transactions in EUR is held to be insignificant as the Lithuanian Litas is pegged to the Euro at a fixed rate. The Company does not have any material exposure in other foreign currencies as at 31 December 2006.

Notes to the accounts

26 Related party transactions

Related parties of the Company are:

- the party that controls, is controlled by or is under common control with the Company;
- the party that has significant influence over the Company;
- the party that is a member of the key management personnel of the Company or its parent;
- the close members of the family of the above mentioned individuals and;
- the companies under control or significantly influenced by the above mentioned individuals.

Parent company and ultimate parent company are as follows:

Company	Relationship
Sobieski Sp. Z.o.o.	Parent company
Belvedere S.A.	Ultimate parent company

Other major related parties can be specified as follows:

Company	Relationship
UAB Belvedere Prekyba	Belvedere group company
Sobieski Destylarnia S.A.	Belvedere group company
Vinimpex PLC	Belvedere group company
UAB Belvedere Baltic	Belvedere group company
Fabryka Wodek Polmos Lancut	Belvedere group company
Darius Žaromskis	Shareholder

Sales and purchases from the related parties during the reporting period ended as at 31 December 2006 and 31 December 2005 are as follows:

Company	Type of transaction	2006	2005
Purchases from:			
Belvedere group companies	Purchase of services	6,651,193	6,370,880
Belvedere group companies	Purchase of raw materials	4,554,253	293,519
Shareholder	Purchase of legal services	189,600	63,200
Parent company	Purchase of inventories	345	26,932
Ultimate parent company	Purchase of inventories	0	166,520
Total purchases		11,395,391	6,921,051

Notes to the accounts

26 Related party transactions (cont'd)

Company	Type of transaction	2006	2005
Sales to:			
Belvedere group companies	Sales of production including excise tax	114,908,857	88,409,092
Parent company	Sales of production including excise tax	402,899	437,564
Belvedere group companies	Sales of services	71,646	45,999
Parent company	Other operating income	0	4,582,547
Ultimate parent company	Sales of production including excise tax	0	43,754
Total sales		115,383,402	93,518,956
Less excise tax		78,218,997	61,067,767
Total sales net of excise tax		37,164,405	32,451,189

Balances outstanding with identified related parties at the end of the reporting period:

Company	2006	2005
Trade receivables		
From Belvedere group companies	14,337,477	15,023,394
From parent company	185,635	1,370,771
From ultimate parent company	0	43,754
Total trade receivables	14,523,112	16,437,919
Trade payables		
To Belvedere group companies	1,797,661	3,536,059
Total trade payables	1,797,661	3,536,059

Remuneration to the Company's management is disclosed in note 8 of the annual accounts.

All outstanding balances with these related parties are priced on arm's length basis.

Notes to the accounts

27 Commitments and contingent liabilities

As security for the loan and overdraft facilities from Bayerische Hypo-und Vereinsbank AG, Vilnius branch, the following assets have been pledged by the Company:

Thousand Lit	2006	2005
Carrying amount of pledged buildings and constructions	10,598	11,526
Carrying amount of pledged machinery and equipment	1,997	2,450
Carrying amount of pledged trade marks	16,707	17,653
Carrying amount of pledged inventories	6,995	5,507
Pledged cash in Bayerische Hypo-und Vereinsbank AG, Vilnius branch	350	773

Additionally, as at 31 December 2006, the Company has pledged receivables from trade debtors UAB Belvedere Prekyba, UAB Aibės Logistika and UAB Palink. Trade receivables from these trade debtors amounted to 19,736 thousand Lit as at 31 December 2006.

At 31 December 2006, cash in banks and cash inflows to the accounts of Vilnius branch of Bayerische Hypo-und Vereinsbank AG are pledged to secure the bank loan and overdraft.

On 18 December 2006 Bayerische Hypo-und Vereinsbank AG, Vilnius branch has issued 2 guaranties to Customs for payment of import VAT and other related charges amounting to 240 thousand Lit on behalf of AB Vilniaus Degtinė.

On 7 September 2006 the Company has issued a commitment to Tax authorities to execute the tax liabilities arising from storing and transportation of the goods taxed by excise tax. The commitment amounts to 7,100 thousand Lit and it is valid until 30 September 2007.

28 Legal claims

The Company is not involved in any litigation where it acts as a defendant.

29 Fair value of financial instruments

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

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

Carrying amount of trade amounts receivable, other financial property, amounts payable and short-term credit lines is close to their fair value. The settlement period with suppliers is from 10 to 60 days, and credit terms of purchasers' is from 15 to 45 days. Not permanent clients are required to pay in advance.

Notes to the accounts

30 Subsequent events

No significant events occurred after the balance sheet date, which would require adjustments to these financial statements.

Annual report of AB Vilniaus Degtinė for the year 2006

Background information

The history of the Company started in the beginning of the 20th century, in 1907, in Obeliai spirit distillery, Rokiškis district. After the merge of private companies in Vilnius in 1922, a new vodka factory was established.

AB Vilniaus Degtinė is an independent joint-stock capital company, registered in the Vilnius city Board on 8 May 1995. Company's address: Panerių st. 47/2, Vilnius. The branch of the Company - Obeliai spirit distillery (Obeliai local municipality, Rokiškis district).

The Company produces and sells vodka and liqueur products, other alcohol beverages, food rectified, denaturised ethyl alcohol, produces food distilled ethyl alcohol, imports and sells alcohol beverages from other countries.

As at 31 December 2006 the Company's authorised capital was 24,408,431 Lit.

Structure of the authorised capital:

Type of shares	Number of shares, units	Nominal value, Lit	Total nominal value, Lit	Part in the authorised capital, %
Common shares	24,408,431	1	24,408,431	100.00

The common shares, comprising the Company's authorized capital, grant all the shareholders of the Company equal rights. All the shares of AB Vilniaus Degtinė are fully paid. AB Vilniaus Degtinė does not have any debt or derivative securities that would be converted into shares.

In October 2003 VĮ Valstybės Turto Fondas signed the contract of purchase-sale of AB Vilniaus Degtinė State owned shares with the purchaser Sobieski Dystrybucja Sp.Z.o.o., the State owned capital, 20,081.1 thousand Lit (82.3%) was acquired by the company of the Republic of Poland Sobieski Dystrybucja Sp.Z.o.o., which is owned by the Concern of France BELVEDERE SA. In November 2003 Sobieski Dystrybucja Sp.Z.o.o., having registered in the Securities Commission of the Republic of Lithuania a compulsory uncompetitive official proposal to purchase shares of AB Vilniaus Degtinė, acquired additional 6.02% shares of AB Vilniaus Degtinė.

Shareholders that owned more than 5% of the Company's authorised capital as at 31 December 2006:

First and last names of the shareholder (company name, type, address, code)	Number of common shares owned, units	Part of the held authorized capital, %	Part of votes provided by the shares owned, %
SOBIESKI SP.Z.0.0.ul. Bellottiego 1, 01-022, Warszawa, Polska 230030460	16,668,632	68.29	68.29
DARIUS ŽAROMSKIS, 36412220296	4,881,686	19.99	19.99
SKANDINAVSKA ENSKILDA BANKEN CLIENTS, Sergels Torg 2, 10640 Stockholm, Sweden, 50203290810	2,286,750	9.37	9.37

All the shares of AB Vilniaus Degtinė are issued to the public securities turnover. Securities of the Company are in the Current trade list of AB Vilniaus Vertybinių Popierių Birža. AB Vilniaus Degtinė has a contract signed with AB FMĮ Finasta regarding accounting and preparation of periodic statements of securities issued by the Company.

AB Vilniaus Degtinė is a member of the following associated structures: The Lithuania's Chamber Association of Commerce, Industry and Trade, the association of companies engaged in commerce of alcohol beverages, association Lithuania's Food Industry.

Bodies of the Company's Management

The Company has a general shareholder meeting, a unilateral governing body – the head of the Company (general director), joint supervision body – observers' council and joint governing body – the Board.

The Company's observers' council (3 members) is elected for 4 years' cadence in the general shareholders meeting. The observers' council elects the Board members and recalls them from the position. The Company's observers' council: D. Jamiola, T. Kowalski, R. Plungaitė.

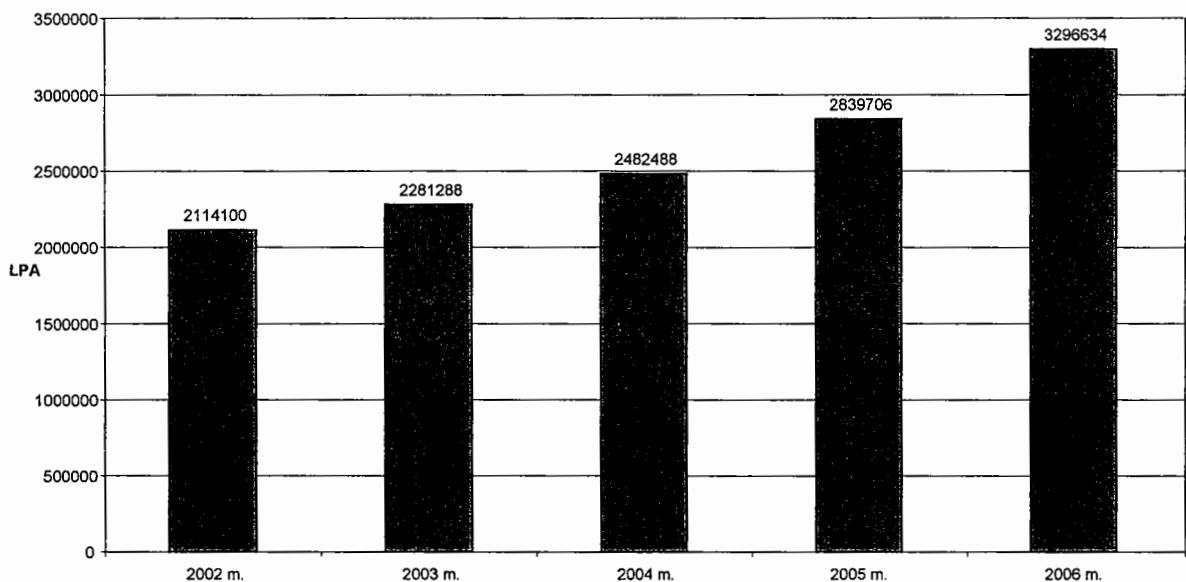
There are 5 members in the Company's Board. The Board elects and recalls the head of the Company, determines his/her remuneration, other work conditions, confirms job description, encourages and imposes penalties. Members of the Board: D. Žaromskis, R. Čičirka, D. Kerbelis, A. Jauniškienė, A. Galuška. The Board used to follow the regulations approved in the shareholders' meeting and work regulations approved by the Board while performing its activities. During the reporting year the governing bodies of the Company worked in a stable manner and actively solved all the problems that occurred in the Company. During 2006 there were 3 observers' council and 9 Board meetings. Strategic issues of the Company, related to the production program, investment plans, financial activity results were discussed in these meetings. Detailed information about the Company's management and disclosure of information is presented in the attachment of the annual report "Statement of AB Vilniaus Degtinė re following the governing code of the companies listed in AB Vilniaus Vertybinių Popierių Birža.

Analysis of production activities

Obeliai spirit distillery, the branch of AB Vilniaus Degtinė, produces food distilled ethyl alcohol out of rye. The produced raw ethyl alcohol is supplied to AB Vilniaus Degtinė for rectification and further processing.

Activity results of spirit distillery:

Production of ethyl alcohol in Obeliai spirit distillery 2002-2006



Name	2006	2005	Change in %
Produced ethyl alcohol, LPA	3,296,634.080	2,839,705.963	+16

The costs of production of ethyl alcohol in Obeliai spirit distillery, a branch of AB Vilniaus Degtinė, for 1 LPA increased 0.15 Litas compared to 2006 due to the increase of fuels (heavy oil) and due to new rye harvest prices. Improving the production technology and maximally exploiting the present capacities of the production equipment, the quantity of the production increased. During the year 2006 review and selection of farms cultivating and supplying rye for production of proper food distilled alcohol SOBIESKI vodka was carried out further. Contracts with the main suppliers are concluded until the year 2009.

In the year 2006 the spirit distillery was not operating in August and September due to compulsory equipment maintenance – capital maintenance of distillation column was performed, more efficient and larger sugaring tanks were manufactured and mounted, that allowed to increase production volumes by 25-30% at the year-end. Current maintenance works were performed in the boiler-house, grain warehouse, a new ethyl alcohol transfer pipe was mounted from production to spirit warehouse, fermentation, administration, scales, and security post premises were repaired. A spacious cargo vehicle was acquired for grain transportation.

Analysis of production volumes and assortment, in comparison with the year 2005:

Assortment	2006		2005		Comparison of 2006 with 2005, %	
	Production volumes, thousands liters	Assortment units	Production volumes, thousands liters	Assortment units.	Production volumes	Assortment quantity
1. Vodka	5,877.82	18	4,751.44	20	124	90
Aromatized vodka	3,870.20	5	1,282.76	3	3 times	167
Bitter sweet vodka	850.35	8	1,166.25	10	73	80
2. Gin	27.87	1	29.55	1	94	100
3. Balsam	40.15	2	38.35	2	105	100
4. Liqueur	217.99	5	165.55	5	132	100
From them: cream liqueurs	134.94	2	111.94	2	121	100
5. Scottish whisky	5.17	1	2.50	1	2 times	100
Total:	10,889.6	42	7,436.4	42	146	100
New products from total amount, in thousand liters	798.97	2	1,282.76	3		
New products from total amount, %	7.3		17.24			
Distilled ethyl alcohol	3,296.63	1	2,839.70	1	116.1	100
Rectified ethyl alcohol	4,002.76	1	2,840.01	1	141	100
Food ethyl alcohol (in bottles)	8.61	1	4.20	1	2 times	100
Denaturized ethyl alcohol	55.32	1	66.70	1	83	100
Aldehyds	248.97	1	184.56	1	135	100

Two new products were developed and introduced in production. Aromatised vodka „Sobieski with cherries” and „Sobieski with apples”. Development of aromatized vodka production justified the expectations – the products are marketable. Production volumes of aromatized vodka during the year comprised 35.5%, in 2005 – 21.2% of the total amount of the produced vodka. AB Vilniaus Degtinė aromatized vodka “Sobieski with apples” was awarded with the golden medal “Lithuania’s product of the Year 2006” by Lithuanian Confederation of Manufacturers.

During the year 2006 means for improving technological process were being implemented, equipment renewed, work organization improved, capacities of production equipment were used rationally, work conditions improved and other efficient means were implemented that allow to quicker introduce production of new items, to improve the quality of production, to decrease production losses. After having successfully reorganized production processes, production volumes increased by 46%.

Investments of the year 2006 to improve the production technology and to increase the capacities

- one pouring corking monoblock and an additional wrapper sticking automatic machine were mounted;
- 3 new reducers with variators for increasing productivity of bottle transporting lines were mounted;
- a new bottle labelling automatic machine was mounted;
- a mechanic cork serving conveyer was mounted and its exploitation was started;
- 3 freezers were acquired for frozen berries;
- an additional changing room for employees was fitted out;
- view monitoring system was installed for control purposes;
- in the vodka preparation department an additional air compressor was mounted, which ensures a reliable management of technological equipment and stirring of the prepared vodka products;
- 10 new tanks 5.5m³ were mounted, serving grounds arranged;
- maintenance of rectification column was performed (these changes were necessary in order to continue exploitation of the rectification column);
- refractometer was installed in the laboratory, with the help of which the necessary production quality analysis is performed;
- in the spirit warehouse two new rustles steel 100 m³ tanks were mounted, where electronic level sensing elements were installed (the system of sensing elements allows to operatively monitor the amount of spirit in the tanks);
- automatic ventilation system was installed;
- in the warehouse of finished products 2 new electric loaders were brought to exploitation (that accelerated the intensity of production transportation and the work conditions of drivers of electric loaders);
- a freezer was mounted in the juice and wine warehouse, where concentrated juice, aromatizers and other raw material is stored and which requires low temperature;
- a transporter was built and installed for the tanks with raw material to be transported to and from the cellar;
- important maintenance works of production and administration premises were carried out.

All the documents of quality management were reviewed and corrected according to the present situation. Production technologies and standard documents were amended. The technological regulations of alcohol production were corrected and supplemented, the recipes of products reviewed, the quantities of utilization of material resources monitored. The Company has a quality management system ISO 9001:2000 implemented, the validity term of the certificate was extended until the year 2009.

During the year 2006, 3,209.6 thousand Litass were allotted for investments in the Company, 933.2 thousand Litass for building repairs.

During 2006 the main investments (3,209.6 thousand Litass) were used:

- for acquisition of technological equipment – 2,672.3 thousand Litass;
- capital construction – 357.9 thousand Litass;
- acquisition of intangible assets – 48.4 thousand Litass;
- acquisition of other assets – 131.0 thousand Litass.

Production sales and marketing activities

10,785.8 thousand liters of strong alcohol beverages were sold in 2006. Compared with 2005 production sales increased by 42.4% (sales of 2005 comprised 7,575.8 thousand liters).

	2006		2005		Compared with 2005, %
	Thousand liters	% from total sales	Thousand liters	% from total sales	
1	2	3	4	5	6
Sales, total	10,785.8	100.00	7,575.8	100.00	142.4
including:					
Vodkas	9,583.1	88.85	6,137.1	81.01	156.2
Bitter vodkas	435.9	4.04	581.5	7.68	75.0
Sweet vodkas	445.7	4.13	646.2	8.53	69.0
Liqueurs	213.1	1.98	169.1	2.23	126.0
Vilnius' gin	28.3	0.26	27.4	0.36	103.3
Scottish whisky	4.0	0.04	3.4	0.04	117.6
Wine	74.4	0.69	11.1	0.15	6.7 times
Cognac	1.3	0.01			

The greatest part of sales in 2006 was comprised of vodka sales – 9,583.1 thousand liters or 88.85% from the total production turnover. 435.9 thousand liters (4.04%) of bitter vodkas, 445.7 thousand liters (4.13%) of sweet vodkas, 213.1 thousand liters (1.98%) of liqueurs, 28.3 thousand liters (0.04%) of Vilnius gin were sold.

The largest part of sales comprised vodka “Bajorų” – 13.1%, vodka “Sobieski” – 20.4%, vodkas “Sobieski with cranberries” – 16.6%, “Sobieski with peppers and honey” – 5.3%, “Sobieski with tangerines” – 6.9%, “Sobieski with cherries” – 5.5%, “VD” – 5.5%, “Bajorų Premium” – 5.0%, bitter sweet vodka “Čepkelių” – 3.4% from the total turnover. Besides, vodkas “Vodka Wilenska”, “Senasis Vilnius” and bitter sweet vodka “Balzam Wilenski” were produced and exported to Poland last year.

As the competition increases, after having joined the European Union, the prices of most of the imported alcohol beverages decreased, with the assistance of advertising agencies the Company implemented strategies of image, sales support advertising of the Company’s brands “Sobieski”, “Bajorų Premium”, “Karvedys”, relations with the mass media etc. A lot of attention was dedicated to product sales, supervision of restaurants and cafes. A lot of resources were allotted for untraditional marketing – culture events, organization of leisure time and entertainment were supported a lot.

Total of 8,281.0 thousand Litass were spent on advertising, support activities and sales promotion of alcohol beverages.

At the year-end of 2006 the Company held almost 27% of Lithuania’s vodka market.

Provision with raw material and materials

In the year 2006 the Company fully provided itself with the raw material and materials necessary for production.

Before signing the contracts of purchase of raw material and materials, suppliers are selected according to the price and quality and the best conditions regarding accounts settlement, negotiations are carried out.

The Company’s raw material and materials are purchased following the regulations valid in EU.

According to the contracts signed in 2006 raw material was purchased from the European Union and from other countries.

Various supplementary materials necessary for production were purchased in the below described manner:

- bottles for the main production – from AB Panevėžio Stiklas (the most acceptable supplier in respect of prices, quality and payment conditions);
- bottles for souvenir production, corks from the European Union countries;
- labels, glue for labels (in respect of prices, quality, supply and payment conditions the most acceptable suppliers are in Lithuania and Poland).

Materials, equipment parts, building material for repairs, household goods, office goods are purchased according to the defined form orders presented to purchase division. In the division of purchases a list of acceptable suppliers is made, data about the presented product are analysed, i.e. quality, price, the performance of supply commitments are controlled.

Economic – financial results

The major part of the Company's main activities (98.2%) comprises income from sales of alcohol beverages. During the year 2006 the Company received income of 61,349.2 thousand Litass from the main activities. Compared to the same period in 2005, income from sales of alcohol production increased by 44.8%.

Income items	2006 (thousand Litas)	2005 (thousand Litas)
Income from sales of alcohol beverages	60,215.4	41,580.5
Other income related with sales of alcohol production		4,581.5
Income from sales of other alcohol production	1,133.8	913.9
Total	61,349.2	47,075.9

The growth of gross profit by 21.1% influenced reduction of cost per bottle and increase of sales volumes. Compared to the same period last year, operating sales costs increased by 27.4% because seeking to expand the market the Company allotted more funds for advertising, marketing services, supervision of restaurants and cafes, market research etc. General and administration operating costs increased by 26.3% due to the increased salaries, taxes, repairs and other expenses.

	2006 (thousand Litas)	2005 (thousand Litas)	Change (+-)
Result of other activities	89.2	(326.1)	415.3
Result of financial and investing activities	(714.0)	(660.4)	(53.6)

Loss from financial operations – 714 thousand Litass, received because of the increase of calculated interest for the credits provided by bank.

Profit before taxation comprised 4,233.3 thousand Litass, the gain of 2006 increased by 4% compared with 2005. Profit and social tax expenses including change in deferred tax – 477.9 thousand Litass, net profit of the reporting period – 3,755.4 thousand Litass.

Key financial indexes

Main indexes	2006	2005
Sales income (excise free)	61,349.2	47,075.9
Gross profit	32,147.4	26,544.3
Operating profit (EBIT)	4,858.2	5,051.6
Profit before taxation	4,233.3	4,065.0
Profit for the year	3,755.4	3,442.8
Profit per share	0.154	0.141
Depreciation and amortization	2,931.9	3,029.3
EBITDA	7,790.1	8,080.9
Non-current assets	36,084.4	36,042.0
Current assets	37,248.6	37,919.4
Total assets	73,333.0	73,961.5
Share capital	24,408.4	24,408.4
Shareholder's equity	35,565.5	31,810.1
Non-current liabilities	11,956.0	15,272.7
Current liabilities	25,811.6	26,878.7
Net cash flows from operating activities	(555.4)	10,224.8
Net cash flows from investing activities	(3,081.2)	(1,036.2)
Net cash flows from financial activities	(3,761.6)	(2,379.0)
Gross margin ratio (%)	52.4	56.4
Net profitability ratio (%)	6.1	7.3
ROE (return on equity), Litas	0.11	0.11
ROA (return on investment), Litas	0.062	0.065
Quick ratio	1.111	1.213
Debt-to-equity ratio	1.062	1.325
Working capital turnover ratio	5.459	5.015
Book value of a share in Litas	1.46	1.30

State of settlements

In 2006 amounts receivable in one year, compared to 2005, increased 3,468.4 thousand Litas due to increase of sales volumes and extension of payment terms. Trade receivables, delayed more than 30 days comprised 58.9 thousand Litas as at 31 December 2006.

The major part of amounts payable and liabilities comprised long-term and medium-term credits issued by Bayerish Hypo-und Vereinsbank AG Vilnius Branch. Long-term credit (4,930 thousand Euros) was used for acquisition of licenses. Medium-term credit (543.8 thousand Euros) was used to replenish the working capital. The Company was not using the credit limit (overdraft) provided by Bayerische Hypo-und Vereinsbank AG as at 31 December 2006.

Financial liabilities for the credit institution amounted to 14,469.0 thousand Litas as at 31 December 2006. In 2006 the average interest rate of long-term credit was 4.66%, medium-term – 4.75%, overdraft's – 4.48%, the pay back term of the loan – 15 March 2011.

During 2006 AB Vilniaus Degtinė paid back the remaining 375.5 thousand Litass part of the medium-term credit and 2,553.3 thousand Litass part of the long-term credit. During the reporting period the whole amount borrowed – 35.3 thousand Litass was paid back to UAB SEB VB Lizingas according to the financial lease agreement.

Compared to the previous year, liabilities to suppliers decreased by 26.7%. The Company does not have any overdue amounts payable for suppliers. The major part of other amounts payable and short-term liabilities comprises the payable excise tax for the 2nd decade of December 2006.

As at 31 December 2006 the Company's assets of 36,647.3 thousand Litass are pledged to secure pay back of overdraft, medium-term and long-term credit issued by Bayerische Hypo- und Vereinsbank AG Vilnius Branch.

Company's assets pledged

Name of the assets pledged	Book value of assets as at 31 December 2006
1. Buildings and plants	10,598.0
2. Equipment	1,997.2
3. Equity right – (claim rights from the issue agreement re labels, residual value of indicated labels)	16,707.1
4. Equity right – rent right of land plots	-
5. Cash funds in the account of Bayerische Hypo- und Vereinsbank AG Vilnius Branch	350.4
6. Inventories	6,994.6
Total	36,647.3

To secure the pay back of overdraft and long-term credit issued by Bayerisch Hypo- und Vereinsbank AG Vilnius Branch the claim right to the funds receivable according to the purchase-sale contracts with UAB Belvedere Prekyba, UAB Aibės Logistika, UAB Palink, total of 19,736.3 thousand Litass, is transferred.

Analysis of key financial ratios indicates that the liquidity rate of the Company is rather high and it has a sufficient amount of liquid assets. Gross margin ratio is also high – 52.4%. This indicates rational marketing activities, the right orientation of prices and competition policies, growth of production and resultativeness of sales. Stability of assets profitability rate (ROA) indicates more profitable utilization of assets. Debt-to-equity ratio, compared to the previous year, decreased and the meaning of this ratio – 1.062 is not threatening the creditors.

Net negative cash flows from operating activities of 2006 (555.4 thousand Litass) were accrued due to increase of prepayments, inventories, trade receivables and due to decrease of trade payables to suppliers. Negative cash flows from investing activities (3,081.2 thousand Litass) were accrued due to acquisition of non-current assets. Net negative cash flows from financial activities (3,761.6 thousand Litass) were accrued after the pay back of part of the loans and having paid interest to the bank. Total of decreased cash and cash equivalents in the Company during 2006 amounted to 7,398.2 thousand Litass.

Other commitments and guarantees:

1. The State Tax Authorities were presented with a written commitment ensuring performance of tax obligations of excise warehouse owner (the amount of obligation is 7,100 thousand Litas).
2. Vilnius Territorial Customs were presented with two single guarantees, the amount of 240.0 thousand of which was deposited from overdraft.
3. LNVAA Linava was presented with a long-term guarantee and funds in AB SEB Vilniaus Bankas were deposited (the amount deposited – 21.0 thousand Litas (8 thousand USD)) re accession to TIR customs system.
4. Five long-term guarantees were presented to National Payment Agency at The Ministry of Agriculture of the Republic of Lithuania and funds were deposited in Bayerische Hypo- und Vereinsbank AG Vilnius Branch to receive the import license (the amount deposited – 3.1 thousand Litas).
5. Security was paid to the account of State Tax Authorities of Vilnius District to ensure the performance of tax obligations, related with export (the amount of security – 172.5 thousand Litas).

Social issues

As at 31 December 2006 there were 245 employees in the Company (as at 31 December 2005 – 218 employees). In 2006 the average number of listed employees of the Company was 236 employees. The average number of listed employees, compared to 2005 (209 employees) increased by 12.9% due to the increase of production volume.

Specification of personnel costs (exclusive of change in accrued vacation compensations):

	2006	2005
Salaries	4,846.6	3,663.6
Costs of social security and guarantee fund	1,523.9	1,158.0
Total:	6,370.5	4,821.6
Average number of employees	232.5	197.1
Average monthly expenses of 1 employee	2.28	2.04

In 2006 the personnel costs increased 1,548.9 thousand Litas (32.1%) due to the increased number of employees and increase of salaries (remuneration of management is included in the personnel costs).

Information about employees and their education

Group of employees	Number of employees 2006 12 31	Education					Average salary 2006 (Litas)	Average salary 2005 (Litas)
		Higher	College	Professional school	Secondary school	Unfinished secondary school		
1. Managers	5	5					6,233.30	6,254.60
2. Specialists and employees	60	28	24	2	6		2,784.04	2,484.38
2.1. Out of them: Obeliai	14	3	8		3		2,047.40	1,748.11
3. Workers	180	12	36	50	72	10	1,553.66	1,344.69
3.1. Out of them: Obeliai	41	3	9	15	11	3	1,464.85	1,253.01
Total	245	45	60	52	78	10	1,874.89	1,667.92

In 2006 the average remuneration comprised 1,874.89 Litas, increased by 12.4% comparing with 2005, due to the increase of salaries in May 2006.

Financial relations with the managers and other related parties:

	2006	2005
1. Calculated amounts related to labor relations: Management	401.7	383.6
Other related parties	-	-
2. Assets given free of charge to: Management Other related parties		0.3
3. Other significant amounts calculated during the year to: Management		40.6
Other related parties	189.6	63.2
Average number of management	4	4

Employees of the Company are constantly increasing their qualification in various seminars and courses. 4 employees of the Company received extramural higher education in 2006. 14 employees of the Company continue their studies in 2007. Employees of the Company participate in BPD project "Development of human resources uniting Lithuania's Industrialists Confederation branches and regional associations". Employees of the Company participating in this project study foreign languages, increase qualification in the sphere of acknowledging computer programs, participate in seminars developing social skills of people, broadening competence of employees and the ability to adjust to changes.

Risk factors related with the Company activities

Last year there were no fines for environment pollution, restrictions of production activities or cease of activities because of harm to environment. There were no other accidents of ecological risk factors during 2006. During 2006 the Company paid 25.7 thousand Litas fee for environment pollution, 20.9 thousand Litas fee for natural resources. The Company has concluded agreements re management of packages waste. 652.8 thousand Litas were spent for packages waste management during 2006. As the production volumes increase, these costs will increase even more.

Because a lot of technological equipment are worned out in the Company, seeking to eliminate technical risk factors, special attention is paid to renovation of equipment, development of technological processes and improvement of production quality.

Employees of the Company constantly raise their qualification in courses, seminars, and study in the institutions of higher education. Remuneration fund is constantly reviewed and increased considering the changes happening in the country. Salaries are paid in time.

Key economic risk factor is related to other strong producers of alcohol beverages and importers of strong beverages. As the competition is getting stronger, the Company pays a lot of attention and allots a lot of funds for creating image of brands and strengthening sales positions in the market.

During the reporting period there were no court or arbitration processes that could have had or had essential influence for the economic state of AB Vilniaus Degtinė.

Plans and forecasts of the Company's activities

Production program for 2007, in thousand liters.

Type pf production	Amount
Vodka products	10,828.6
Bitter sweet vodkas	953.8
Liqueurs	215.6
Gin	30.5
Scottish whisky	3.4
Brandy	352.5
Total	12,384.4

According to the approved production program of the Company for 2007, it is intended to increase sales volumes by 16% compared with 2006.

Tasks and goals for 2007:

- to further improve technological production process, improve assortment and production quality, to implement production of new items;
- to increase competitiveness of production in the market;
- it is also intended to increase assortment and sales of imported beverages;
- to change the inefficient, worn out equipment, to expand productive spirit and production capacities;
- to modernize present production processes, reducing demands of labor force.

Besides, a priority task for the year is development of export. Export to Latvia started last year will be made more active and it is expected to expand the export markets to other countries. It is planned to develop mostly vodka and bitter sweet vodkas in the foreign markets.

Because of indefinite market and complicated forecasting of possible changes, it is anticipated to parallelly develop few brands, to produce and to introduce a few new products in the market.

Danas Kerbelis
General Director

Audra Jauniškienė
Finance Director

Annex to the Annual report

Report of AB Vilniaus Degtinė on the compliance with the Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange

Following part 3 of article 21 of the Law on Securities of the Republic of Lithuania and paragraph 20.5 of the Trading Rules of stock company Vilnius Stock Exchange (“Vilniaus vertybinių popierių birža”), stock company Vilniaus Degtinė reveals in this report on how it complies to the Corporate Code of Governance approved by Vilnius Stock Exchange for the companies whose stock is traded in the regulated market, and specific provisions thereof.

Principle I: Main provisions

The main goal of a company should be meeting the interests of all shareholders by ensuring continuous augmenting of the shareholders equity.

The governance system of the stock company Vilniaus Degtinė ensures that all information about material events of the company, financial results, activities and development prospects is disclosed on a timely basis and accurately as provided for by the provisions of the law, and the information is also posted on the website of the company and in other sources.

The activities of all management bodies of the company are focused on implementation of the strategic goals in order to maximise the gains for the company and its shareholders.

The supervisory council, the board and the head of the company work in close cooperation when resolving various issues arising in the company, held joint discussions on particularly important issues in order to find the most optimal solutions ensuring maximum benefit for the company.

Management bodies of the company ensure that the rights of all interested parties are respected. A labour council is elected in the company to represent the interests of the employees. There is mutually beneficial cooperation with suppliers and clients; terms and provisions of the contracts are being strictly followed.

Principle II: Corporate governance system

The corporate governance system of the company should ensure strategic management of the company, efficient supervision of the management bodies of the company, proper balance and allocation of functions among the bodies of the company, protection of the shareholders' interests.

The company has the following supervisory and management bodies: general shareholders' meeting, supervisory council, board and the head of the company.

The collegial management body of the company is the board, collegial supervisory body – supervisory council. The supervisory council of the company consists of three persons; the board consists of five persons. The supervisory council and the board are elected for a term of 4 years; according to the Articles of Association of AB Vilniaus Degtinė, it is not prohibited to re-elect these persons. The head of the supervisory council has never been the head of the company.

Principle III: The procedure of formation of a collegial body elected by the general shareholders' meeting

The procedure of formation of a collegial body elected by the general shareholders' meeting should ensure the representation of the interests of smaller shareholders of the company, accountability of this body to the shareholders and impartial supervision of the operations of the company and its management bodies.

Detailed information about the members of collegial bodies of the company is publicly available. All members of the collegial bodies upgrade their qualifications at the seminars, various refresher courses where they are updated on basic changes in the regulations applicable to the company's activities.

Members of the supervisory council of the company only partly comply with the independence criteria; up till now, the independence of the members of the supervisory council was not subject to assessment in the company. Members of collegial bodies do not receive remuneration from the company's funds.

Principle IV: Duties and responsibilities of a collegial body elected by the general shareholders' meeting

Corporate governance system should ensure that collegial body elected by the general shareholders' meeting functions in appropriate and efficient manner, and the rights vested with it should ensure efficient supervision of all management bodies of the company and the protection of the interests of all the shareholders of the company.

Supervisory council elected in the company shall submit to the general shareholders' meeting comments and proposals regarding the annual financial statements, profit distribution plan and annual report of the company, also carry out other functions within the competence of supervisory council. According to the information available to the company, all members of collegial bodies act with good will in respect of the company, considering the interests of the company rather than those of their own or third parties. Members of collegial bodies dedicate enough time and attention for resolving company's issues, take part in all the meetings held by the collegial body. Provisions regarding the approval of strategically important transactions are defined in detail in the Articles of Association of the company and they are consistently being observed. Resolutions are regarded to be adopted when the majority of the members of collegial body have voted for them.

Considering the structure, size and activities of the company, no committees of collegial body are formed in the company.

Principle V: Working procedures of the collegial bodies of the company

Working procedures of the collegial supervisory and management bodies established in the company should ensure efficient work of these bodies and adoption of resolutions; encourage active cooperation of the bodies of the company.

Collegial supervisory and management bodies of the company are managed by the chairmen of these bodies. The chairman of a collegial body shall be responsible for the proper convention of the meetings of the appropriate collegial body. The chairman shall ensure that all members of the collegial body are properly notified about the convention of a meeting and its agenda. The head of the company shall provide the chairman of the collegial body with full information about the economic and financial activities of the company necessary for the adoption of the resolutions. The procedure of the meetings of the supervisory and management bodies is not strictly defined; when needed, meetings are called on a short notice.

Principle VI: Impartial treatment of the shareholders and shareholders' rights

Corporate governance system should ensure impartial treatment of all the shareholders, including the smaller shareholders and foreigners. Corporate governance system should protect the rights of the shareholders.

Ordinary registered shares, which form the statutory capital of the company, grant equal rights to all the shareholders of the company. All transactions that are important for the company and its shareholders are being approved by the general shareholders' meeting (the Articles of Association of the company establish the criteria of important transactions to be used for selecting the transactions, which call for the approval of the meeting). The procedures of convening and conducting the general shareholders' meeting provide the shareholders with equal opportunities to take part in a meeting. All the shareholders of the company are given the possibility to ask the members of supervisory and management bodies questions on the agenda of the general shareholders' meeting and receive answers to them. Documents prepared for the general shareholders' meeting, including draft resolutions of the meetings are made public. All information is presented in Lithuanian and English. The shareholders of the company can participate in the shareholders' meeting both in person and through a representative, provided the person has been properly authorised. The company provides the shareholders with a possibility to vote by filling in a general voting-paper.

Principle VII: Avoidance and disclosure of conflicts of interest

Corporate governance system should encourage the members of the bodies of the company to avoid conflicts of interests and ensure transparent and efficient mechanism for disclosing of conflicts of interests of the members of the company bodies.

The members of supervisory or management bodies of the company avoids the situation where their private interests are or might be in conflict with the interests of the company. There were no such situations in the company. The company observes the rule that a member of a supervisory or management body of the company shall not confound the property of the company, the use of which has not been specifically discussed with him, with his own property, and use such property or information obtained by him as a member of a body of the company for personal benefit or the benefit of a third person without the approval of the general shareholders' meeting or other body of the company authorised by the meeting.

Principle VIII: Salary policy of the company

The procedure of approval, revision and declaration of the salary policy and directors' salaries established in the company should prevent possible conflicts of interests and abuse in establishing the salaries for the directors as well as to ensure the publicity and transparency of the salary policy of the company and the directors' salaries.

The company does not prepare reports on salary policy; general information about the salaries of all the managers is disclosed and the average salary of the employees of the company is presented in detail by categories in the annual report.

Principle IX: The role of interest-holders in the company governance

Corporate governance system should recognise the rights of the interest-holders established by laws and encourage active cooperation of the company and the interest-holders in creating the welfare of the company, new jobs and financial stability. In the context of this principle, the term interest-holders includes investors, employees, creditors, suppliers, clients, local community and other persons who have interest in the particular company.

Corporate governance system of the company ensures that all legally protected rights of the interest-holders are respected.

Principle X: Disclosure of information

Corporate governance system should ensure that information about all key issues of the company, including financial situation, operations and management of the company, was disclosed on a timely basis and accurately

The company presents all information about its activities and results through the information system used by Vilnius Stock Exchange in Lithuanian and in English simultaneously to the extent possible. The Exchange posts the obtained information on its website and trading system, thus ensuring simultaneous presentation of information for everyone. The company does not disclose information, which might have impact on the price of its securities, in the comments, interviews or otherwise until such information is made public through the Exchange information system. Later on, all information is also posted on the publicly accessible website.

Principle XI: Selection of Audit Company

The mechanism of selecting the audit company should ensure the independence of auditor's report and auditor's opinion.

In order to obtain unbiased opinion on the interim financial statements, annual financial statements and annual report of the company, the audit is conducted by an independent audit company. The audit company is proposed to the general shareholders' meeting by the board of the company and it is approved by the supervisory council. The audit company has not provided to the company other services than audit and has not received any payment for this from the company.