

*Annual Prospectus –Report 2006 of  
Public company VILNIAUS DEGTINĖ*



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## I. GENERAL PROVISIONS

### 1. Reporting period covered by this Annual Prospectus– Report

The Annual Prospectus–Report is drawn up for the year 2006.

### 2. Main data about the issuer

Name of the company	Public company Vilniaus Degtinė, hereinafter referred to as AB Vilniaus Degtinė
Code	120057287
Authorised capital	24 408 431 LTL
Address	Panerių Str. 47/2, LT-03202 Vilnius
Telephone	(8~5) 233 0819
Fax	(8~5) 231 5052
E-mail address	<a href="mailto:vd@degtine.lt">vd@degtine.lt</a>
Internet website	<a href="http://www.degtine.lt">www.degtine.lt</a>
Legal and organisational form	Public company, legal person of a limited liability
Date and place of registration	8 May 1995; Register Service at Vilnius Municipality
Register, in which data about the company are stored	Register of Legal Persons

### 3. Type of the issuer’s principal activities

AB Vilniaus Degtinė is one of the companies in the manufacturing industry. The Company manufactures and sells different types of vodka and liqueurs as well as other alcoholic drinks, rectified, methylated grain ethyl alcohol, produces distilled ethyl alcohol, imports and sells alcoholic products from other countries.

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

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

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

### 5. Persons responsible for the information contained in the Report:

5.1. The issuer’s employees and the Head of the Administration responsible for the Report

Danas Kerbelis, Director General, tel. (+370~5) 233 0819, fax. (+370~5) 231 5052

Audra Jauniškienė, Finance and Administration Director, tel. (+370~5) 213 3152, fax. (+370~5) 231 5052

Raimonda Palionienė, Chief Financier, tel. (+370~5) 231 0270, fax. (+370~5) 231 5052

5.2. The Report was drawn up by Asta Krušnauskaitė, financial broker of financial brokerage firm AB Finasta (Konstitucijos Ave. 23, Vilnius, tel. (+370~5) 278 6844, fax. (+370~5) 278 6838) on the basis of the information provided by the Company.



**6. Declaration by the members of the issuer's managing bodies, employees, the Head of the Administration and the issuer's consultants in charge of the preparation of the Report that the information contained in the Report corresponds to the facts and there are no omissions likely to have an effect on the investors' decisions to purchase or sell the issuer's securities or on the market price and valuation of these securities.**

AB Vilniaus Degtinė represented by Director General Danas Kerbelis, Finance and Administration Director Audra Jauniškienė, and Chief Financier Raimonda Palionienė confirms that information contained in the Report corresponds to the facts and there are no omissions likely to have an effect on the investors' decision to purchase or sell the issuer's securities or on the market price and valuation of these securities.

**Danas Kerbelis**, Director General of AB Vilniaus Degtinė

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**Audra Jauniškienė**, Finance and Administration Director of AB Vilniaus Degtinė

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**Raimonda Palionienė**, Chief Financier of AB Vilniaus Degtinė

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The financial brokerage firm AB Finasta represented by financial broker Asta Krušnauskaitė confirms that the Report contains accurate information as presented to AB Finasta by the employees and managers of AB Vilniaus Degtinė. AB Finasta is responsible for the proper disclosure of the presented facts. AB Vilniaus Degtinė is responsible for the accuracy of the information.

**Asta Krušnauskaitė**, Financial Broker of AB FMĮ Finasta

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Date of signing of the Report – 16<sup>th</sup> of May 2007

Place of drawing up of the Report – AB FMĮ Finasta (Konstitucijos Ave. 23, Vilnius)



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

### 7. Authorized capital of the Issuer:

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

Table 7.1.1. Composition of the authorised capital.

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

All the shares of AB Vilniaus Degtinė have been fully paid for.

7.2. Information about the projected increase of the authorized capital by converting or exchanging convertible debt securities or derivative securities into shares:

AB Vilniaus Degtinė has issued no debt securities or derivatives convertible into shares.

### 8. Shareholders

The General Shareholders' Meeting of AB Vilniaus Degtinė was held on 17 April 2007. The registration date of the meeting: 6 April 2007.

Total number of shareholders: 222.

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

Name of the shareholder (company type, address of registered office and code)	Number of ordinary registered shares the shareholder holds by the right of ownership	Portion of the authorised capital held, %	Portion of the votes attaching to the shares held by the right of ownership, %	Portion of votes held by the shareholder together with the persons acting in concert, %
SOBIESKI SP.Z.0.0. ul. Bellottiego 1, 01-022, Warszawa, Polska 230030460	16,668,632	68.29	68.29	----
DARIUS ŽAROMSKIS	4,881,686	19.99	19.99	
SKANDINAVISKA ENSKILDA BANKEN CLIENTS Sergels Torg 2, 10640 Stockholm, Sweden 50203290810	2,286,750	9.37	9.37	----

### 9. Main characteristics of the shares issued for public trading

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

### 10. Data about the shares offered for private placement

There have been no private placements of shares.



**11. Information about depositary receipts representing shares**

No depositary receipts representing shares have been issued.

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

No debt securities have been issued for public trading.

**13. Data about the debt securities offered for private placement**

No debt securities have been offered for private placement.

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

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



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

#### 15. Securities listed for trading at the stock exchange

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

Table 15.1. Main characteristics of the shares of AB Vilniaus Degtinė

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

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

##### 16.1. Traded on the VSE

Table 16.1.1. Trading in the Company's shares in 2004 – 2006

Reporting period	Price, LTL			Turnover, LTL			The date of the last trading session	Total turnover	
	max.	min.	last session	max.	min.	last session		No. of shares	LTL
2004, 1 <sup>st</sup> quarter	1.04	0.90	0.90	11,028.16	0	0	31/03/2004	37,217	37,010.24
2004, 2 <sup>nd</sup> quarter	1.00	0.90	1.00	1,094,920.20	0	0	30/06/2004	1,246,441	1,124,619.66
2004, 3 <sup>rd</sup> quarter	1.01	0.76	0.76	14,131.81	0	3,050.00	30/09/2004	54,740	44,277.38
2004, 4 <sup>th</sup> quarter	1.53	0.75	1.53	12,214.55	0	153	31/12/2004	54,710	55,749.28
2005, 1 <sup>st</sup> quarter	2.55	1.45	2.25	1,121,009.43	0	2,904.68	31/03/2005	1,502,951	1,657,431.76
2005, 2 <sup>nd</sup> quarter	2.29	1.89	2.16	15,495.00	0	0	30/06/2005	51,103	106,968.92
2005, 3 <sup>rd</sup> quarter	3.15	2.01	3.00	18,430.60	0	0	30/09/2005	63,110	168,134.54
2005, 4 <sup>th</sup> quarter	3.45	2.80	3.00	12,267.69	0	0	30/12/2005	33,358	101,621.20
2006, 1 <sup>st</sup> quarter	3.39	2.70	2.75	5,968,000.00	0	0	31/03/2006	5,038,847	6,409,655.60
2006, 2 <sup>nd</sup> quarter	3.10	2.80	2.95	193,072.45	0	0	30/06/2006	113,277	342,179.36
2006, 3 <sup>rd</sup> quarter	3.99	2.97	3.80	23,088.25	0	0	29/09/2006	52,014	176,170.79
2006, 4 <sup>th</sup> quarter	5.01	3.85	5.00	27 438.65	0	1,669.71	29/12/2006	50,667	231,113.90



Fig. 16.1.1. Trading in the Company's shares from 25/03/2002 to 31/12/2006





## 16.2. Trading on other exchanges

Shares of AB Vilniaus Degtinė are not traded on any other exchanges.

## 16.3. Trading on other organised markets

Shares of AB Vilniaus Degtinė are not traded on any other organised markets.

## 17. Capitalization of securities

Table 17.1. Capitalization of the Company's shares

Date of the last session	Capitalization (LTL)
31/03/2004	21,967,588
30/06/2004	24,408,431
30/09/2004	18,550,408
31/12/2004	37,344,899
31/03/2005	54,918,970
30/06/2005	52,722,211
30/09/2005	73,225,293
31/12/2005	73,225,293
31/03/2006	67,123,185
30/06/2006	72,004,871
29/09/2006	92,752,038
29/12/2006	122,042,155

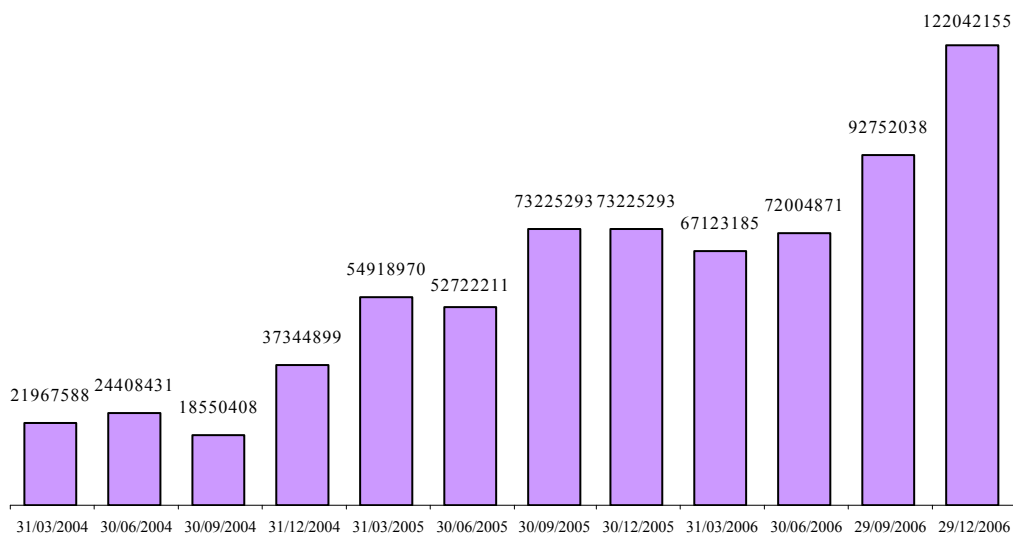


Fig. 17.1. Capitalization of the Company's shares, LTL



## 18. Trading in the issuer's securities on the OTC market

Table 18.1. OTC transactions in the ordinary registered shares of AB Vilniaus Degtinė

Reporting period	Settlement in cash				Settlement in kind		
	Price, LTL		Number of securities	Amount, LTL	Number of transactions	Number of securities	Number of transaction
	max.	min.					
2004, 1 <sup>st</sup> quarter	1.02	0.67	204,936	197,858	2	-	-
2004, 3 <sup>rd</sup> quarter	-	-	-	-	-	3,697	1
2004, 4 <sup>th</sup> quarter	0.60	0.60	18,000	10,800	1	-	-
2006, 2 <sup>nd</sup> quarter	1.90	1.90	22,223	42,224	1	-	-
2006, 3 <sup>rd</sup> quarter	2.50	2.50	4,000	10,000	1	2,148	1
2006, 4 <sup>th</sup> quarter	3.25	2.02	44,446	117,112	2	-	-

In the 2<sup>nd</sup> quarter of 2004, in 2005 and in the 1<sup>st</sup> quarter of 2006 no OTC trades in the Company's took place.

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

AB Vilniaus Degtinė did not buy any of its own shares.

## 20. Indication of a tender offer

No tender offer to acquire shares of AB Vilniaus Degtinė was made in 2006. Neither did the issuer announce a tender offer to acquire securities issued by other entities.

## 21. The issuer's paying agents

The Company has no paying agents.

## 22. Agreements with intermediaries of public trading in securities

AB Vilniaus Degtinė has signed an agreement of unlimited duration with the financial brokerage firm AB Finasta (Konstitucijos Ave. 23, Vilnius) regarding the management of securities accounting and preparation of periodical reports.



## IV. DATA ABOUT THE ISSUER'S ACTIVITIES

### 23. Legal basis for the issuer's activity

The Company operates in compliance with the provisions of the Company Law, the Law on Securities and other legal acts of the Republic of Lithuania and its Articles of Association of Association.

### 24. Membership in associated structures

AB Vilniaus Degtinė is a member in the following associated structures:

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

Key functions:

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

- **Association of Traders in Alcoholic Beverages.** The Association was formed in 2003. The Association is a representative of the alcohol industry in Lithuanian and EU organisations and one of the largest food industry organisations in Lithuania by production volumes, number of employees and the amount paid in taxes.

While performing its functions, the Association aims at:

- Protecting, supporting, and increasing opportunities to produce and trade alcoholic beverages in the ways acceptable to the society;
- Reducing tendencies of excessive consumption of alcohol;
- Carrying research on the dynamics of the alcohol market and prospects of its development in Lithuania;
- Making the opinion of the Lithuanian alcohol industry enterprises known to the politicians, public decision-makers, mass media and consumers;
- Harmonising and coordinating actions of industrial enterprises in their relations with other entities and organisations;
- Representing its members and protecting their interests in relations with the state institutions of the Republic of Lithuania;
- Assisting its members in reaching foreign firms;
- Ensuring that Lithuanian consumers are offered high-quality alcoholic beverages.

- **Association “Lithuanian Food Industry”.** On 28 December 1990, a founding agreement of the Lithuanian Association of Food Industry Enterprises was signed with legal entities, including AB Vilniaus



Degtinė. It is an independent union of enterprises, coordinating and performing tasks entrusted to it by its members and representing economic interests thereof. The Association operates in accordance with the Law on Associations of the Republic of Lithuania.

AB Vilniaus Degtinė does not participate in the capital of other members of these associations. The company does not have information about other members of these associations participation in its capital.

## 25. Brief description of the issuer's history

The history of the Company started in the beginning of the twentieth century, in 1907, at the Obeliai Spirit Distillery in Rokiškis. At that time, the distillery was owned by the counts and the drinks were made exclusively for aristocracy. In 1922, a group of private enterprises merged establishing a new distillery. In 1940, it became the main producer of strong drinks in the country.

In 1995, the state enterprise Vilniaus Degtinė was reorganized into a special purpose public company (AB) Vilniaus Degtinė. The Company has a subsidiary, the Obeliai Spirit Distillery, producing distilled grain ethyl alcohol, the primary component of the spirit drinks produced in Vilnius.

Maintaining deep Lithuanian traditions, products by Vilniaus Degtinė have won numerous awards for quality and exceptional recipes, and the special type of sweet bitter “Čepkelių” was recognised as an invention in 1984.

In November 2003, more than 80% of the Company’s shares were purchased by Sobieski SP.Z.0.0., a Polish subsidiary of the French company BELVEDERE S.A. Currently this concern owns about 150 brands of the world-known strong drinks. Currently, the concern owns around 150 world-known trademarks of alcoholic drinks. It has subsidiaries or is part of joint ventures in 25 countries worldwide. The Company specialises in production and sale of spirit drinks as well as development and management of their trademarks.

The major part of Company’s production consists of vodka. The most popular vodkas are “Bajorų”, “Sobieski” and “Karvedys”. The Company also produces bitters and liqueurs. Most of the products are made from natural ingredients – nuts, berries, fruits, juice, and honey.

## 26. Characteristics of the production

The main activities of the Company are production of vodka, bitters and sweet bitters, liqueurs and other alcoholic drinks.

Two new products were developed and introduced into production in 2006 – flavoured vodkas “Sobieski su vyšniomis” (with cherry) and “Sobieski su obuoliais” (with apple).

The expansion of the production of flavoured vodka met the expectations of the Company – these products enjoy great demand. The production volumes of flavoured vodka accounted for 35.5 percent in 2006, whereas in 2005 they accounted only for 21.2 percent of the total vodka production.

Last year, flavoured vodka “Sobieski su obuoliais” by AB Vilniaus Degtinė was awarded gold medal “Lithuanian Product of the Year 2006” by Lithuanian Confederation of Industrialists.

Table 26.1. Production volumes in kind, 2004–2006

Production	2006			2005			2004		
	Thou. litres	Share, percent	Assortment, units	Thou. litres	Share, percent	Assortment, units	Thou. litres	Share, percent	Assortment, units
Vodka	5,877.8	53.98	19	4600.6	63.89	20	3,587.8	74.32	24
Flavoured vodka	3,870.2	35.54	5	1433.6	17.25	3	-	-	-
Bitters	890.5	8.18	10	1,204.6	16.20	10	1,086.4	22.50	11
Gin	27.9	0.26	1	29.6	0.40	1	8.9	0.18	1
Liqueurs	218	2.00	5	165.5	2.23	5	137.8	2.85	5
Incl. cream liqueurs	134.9	1.24	2	111.9	1.50	2	97.4	2.02	2
Scottish whisky	5.2	0.05	1	2.5	0.03	1	6.5	0.13	1



<b>Total</b>	<b>10,889.6</b>	<b>100.00</b>	<b>41</b>	<b>7,436.4</b>	<b>100.00</b>	<b>40</b>	<b>4,827.4</b>	<b>100.00</b>	<b>42</b>
Distilled ethyl alcohol	3,296.6	-	1	2,839.7	-	1	2,482.5	-	1
Rectified ethyl alcohol	4,002.8	-	1	2,840.0	-	1	2,419.8	-	1
Grain ethyl alcohol (bottled)	8.6	-	1	4.2	-	1	7.0	-	1
Methylated ethyl alcohol	55.3	-	1	66.7	-	1	55.9	-	1
Aldehydes	250.1	-	1	184.6	-	1	148.1	-	1

The Company's subsidiary Obeliai distillery produces distilled ethyl alcohol from grain. The ethyl alcohol is supplied to AB Vilniaus Deginė for rectification and further processing. Having improved the production technology and maximised the use of available production capacities, Obeliai distillery produced 16 percent more ethyl alcohol in 2006 compared to 2005.

Table 26.1<sup>1</sup>. Production volumes of alcoholic drinks in terms of value, 2004–2006

<b>Production</b>	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>thousand LTL</b>	<b>share, percent</b>	<b>thousand LTL</b>	<b>share, percent</b>	<b>thousand LTL</b>	<b>share, percent</b>
Vodka	50,879.152	83.78	30,042.371	73.62	17,587.478	64.05
Bitters	7,088.648	11.67	8,658.214	21.22	8,023.602	29.22
Gin	159.882	0.26	118.139	0.29	37.474	0.14
Liqueurs	2,521.431	4.15	1,946.827	4.77	1,704.013	6.21
Scottish whisky	83.465	0.14	39.043	0.10	103.920	0.38
<b>Total</b>	<b>60,732.578</b>	<b>100.00</b>	<b>40,804.594</b>	<b>100.00</b>	<b>27,456.487</b>	<b>100.00</b>

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

<b>Product</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Vodka	2,61	2,49	2,46
Bitters	3,36	2,99	3,15
Sweet bitters	4,55	4,09	4,21
Liqueurs	5,78	5,88	6,18
Whisky	7,83	7,84	8,19
Wine	-	2,24	-

Table 26.3. Indicators characterizing the issuer's performance in 2004–2006

<b>Key indicators</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sales revenue (excl. excise tax), thou. LTL	61,349.2	47,075.9	29,347.1
Gross profit, thou. LTL	32,147.4	26,544.3	13,328.5
Earnings before income tax (EBIT), thou. LTL	4,858.2	5,051.6	104.7
Profit before tax, thou. LTL	4,233.3	4,065.0	(91.2)
Profit for the year, thou. LTL	3,755.4	3,442.8	(60.3)
Profit per share, LTL	0.154	0.141	(0.002)
Depreciation and amortisation, thou. LTL	2,931.9	3,029.3	1,969.6
EBITDA, thou. LTL	7,790.1	8,080.9	2,074.3
Non-current assets, thou. LTL	36,084.4	36,042.0	38,378.5
Current assets, thou. LTL	37,248.6	37,919.4	17,281.6
Total assets, thou. LTL	73,333.0	73,961.5	55,660.1
Share capital, thou. LTL	24,408.4	24,408.4	24,408.4
Shareholders' equity, thou. LTL	35,565.5	31,810.1	28,367.3
Non-current liabilities, thou. LTL	11,956.0	15,272.7	17,743.7



Current liabilities, thou. LTL	25,811.6	26,878.7	9,549.0
Net cash flows from ordinary activities, thou. LTL	(555.4)	10,224.8	574.8
Net cash flows from investing activities, thou. LTL	(3,081.2)	(1,036.2)	(19,679.8)
Net cash flows from financing activities, thou. LTL	(3,761.6)	(2,379.0)	(18,184.2)
Gross profit margin ratio, percent	52.4	56.4	45.4
Net profit margin ratio, percent	6.12	7.31	(0.21)
ROE (return on equity), LTL	0.11	0.11	(0.002)
ROA (return on assets), LTL	0.062	0.065	0.009
Quick ratio	1.11	1.21	1.22
Net working capital turnover, ratio	5.46	5.02	3.62
Book value per share, LTL	1.46	1.30	1.16
Net profit per share, LTL	0.15	0.14	(0.002)
Assets turnover ratio	0.84	0.64	0.53
General liquidity ratio	1.44	1.41	1.81
Debt-to-equity ratio	1.06	1.33	0.96
Debt ratio	0.52	0.57	0.49
Average return on assets, percent	5.10	5.31	(0.13)

## 27. Sales markets

In 2006, AB Vilniaus Degtinė sold 10,785.8 thousand litres of strong spirits. Compared to 2005, sales increased by 42.4 percent (in 2005, 7,575.8 thousand litres were sold).

Vodka sales account for the major part of the sales – 9,583.1 thousand litres or 88.85 percent of the total turnover. The Company sold 435.9 thousand litres (4.04 percent.) of bitters, 445.7 thousand litres (4.1 percent) of sweets bitters, 213.1 thousand litres (1.98 percent) of liqueurs, 28.3 thousand litres (0.04 percent) of Vilnius gin.

Table 27.1. Sales volumes in 2004–2006

Products	2006			2005			2004		
	thousand litres	thousand LTL	percent	thousand litres	thousand LTL	percent	thousand litres	thousand LTL	percent
Alcoholic beverages	10,785.8	60,215.392	98.15	7,575.8	41,580.457	88.33	4,748.60	27,065.293	92.22
- vodka	9,583.1	50,018.465	81.53	6,137.1	30,554.678	64.91	3,524.60	17,277.67	58.87
- bitters	435.9	2,958.357	4.82	581.5	3,531.764	7.50	529.80	3,353.52	11.43
- sweet bitters	445.7	4,059.444	6.62	646.2	5,292.484	11.24	538.80	4,538.62	15.47
- liqueurs	213.1	2,464.757	4.02	169.1	1,989.175	4.23	137.90	1,705.25	5.81
- Vilnius gin	28.3	162.174	0.26	27.4	109.358	0.23	11.40	48.00	0.16
- Scottish whisky	4.0	64.204	0.10	3.4	53.098	0.11	5.70	91.13	0.31
- wine	74.4	438.753	0.72	11.1	49.900	0.11	-	-	-
- cognac	1.3	49.238	0.08	-	-	-	-	-	-
- production of specialised shops	-	-	-	-	-	-	-	51.10	0.17
Grain rectified ethyl alcohol	417.9	1,026.595	1.67	318.0	770.646	1.64	552.90	1,703.839	5.81
Methylated ethyl alcohol	51.2	107.209	0.17	69.1	143.224	0.30	73.90	152.940	0.52
Other goods and services	-	-	-	-	4,581.586	9.73	-	425.013	1.45
<b>Total</b>	<b>11,254.9</b>	<b>61,349.196</b>	<b>100.00</b>	<b>7,962.9</b>	<b>47,075.913</b>	<b>100.00</b>	<b>5,375.40</b>	<b>29,347.089</b>	<b>100.00</b>

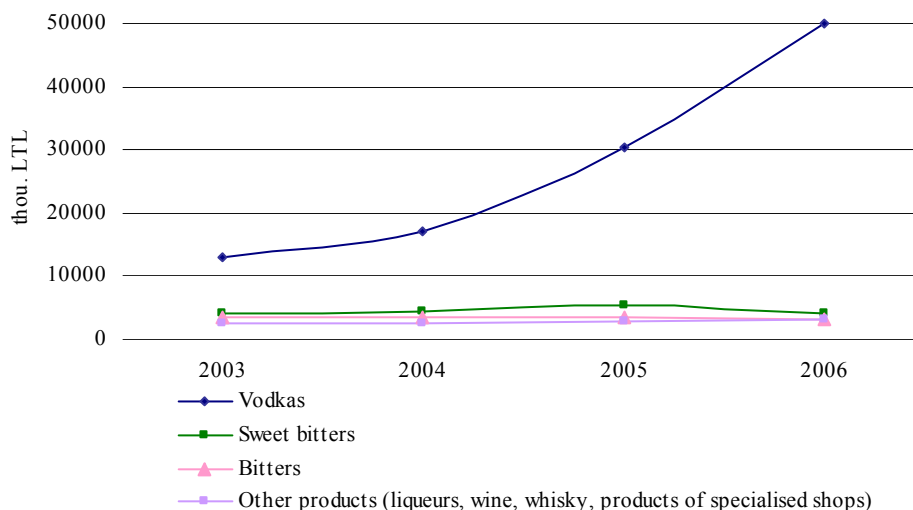


Fig. 27.1. The Company's sales volumes in 2003–2006

In 2006, the following products accounted for major part of the sales of AB Vilniaus Degtinė: vodka “Bajorų” – 13.1 percent, vodka “Sobieski” – 20.4 percent, vodka “Sobieski su spanguolėmis” (with cranberries) – 16.6 percent, “Sobieski su pipirais ir medumi” (with pepper and honey) – 5.3 percent, “Sobieski su mandarinais (with tangerine) – 6.9 percent, “Sobieski su vyšniomis” (with cherry) – 5.5 percent, VD – 5.5 percent, “Bajorų Premium” – 5.0 percent, bitter “Čepkelių” – 3.4 percent from the total turnover.

With the increased competition and reduction of prices of many imported drinks after joining the European Union, the Company implemented the strategy of image promotion of Company's trademarks “Sobieski”, “Bajorų Premium” and “Karvedys”, sales support advertising strategy, media relations and addressed other issues through advertising agencies. Major attention was devoted to the supervisions of product sales, restaurants and cafes. Considerable amounts were allotted for untraditional marketing – sponsoring cultural events, organising leisure entertainment. The Company spend the total of 8,281.0 thousand LTL for the advertising of alcoholic drinks, sponsorship activities and sales promotion in 2006.

By the end of 2006, the Company had almost 27 percent of the vodka market in Lithuania.

Table 27.2. Company's sales by markets, 2004–2006, thousand LTL

Production	2006		2005		2004 m	
Lithuania	59,747.347	99.22	41,094.168	98.83	26,683.60	98.59
Foreign countries:		0.00		0.00		0.00
-EU countries (Poland, France)	468.045	0.78	486.288	1.17	54.2	0.20
-Duty Free shops	-		-		327.5	1.21
<b>Total</b>	<b>60,215.392</b>	<b>100.00</b>	<b>41,580.456</b>	<b>100.00</b>	<b>27,065.3</b>	<b>100.00</b>

Most of the sales contracts of the Company are made for a calendar year. The contracts are concluded with wholesalers and retailers that have appropriate licences issued by the State Tobacco and Alcohol Control Agency.

## 28. Procurement

In 2006, the Company was fully stocked on raw materials required for production. Raw materials are procured in compliance with the EU regulations in force.

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



obtained under one-off contracts.

Table 28.1. Volumes of supply by country in 2006, percent

Country	Volume of supply by country, percent
Lithuania	67
Poland	20
Holland	3
Bulgaria	4
Azerbaijan	1
Czech Republic	2
Germany	2
Italy	1

Purchased of supplementary products were as follows:

- bottles for the main production from AB Panevėžio Stiklas;
- bottles for souvenir production, bottle caps from the EU countries;
- labels, label adhesive (the most acceptable suppliers in terms of price, quality, supply and settlement conditions were Lithuanian and polish suppliers)

Materials, parts of equipment, construction materials for repairs, household goods, and office supplies are procured on the basis of applications of a standard form submitted to the procurement department. The procurement department compiles the list of acceptable suppliers, analyses the data about the product supplied, i.e. its quality and price, controls how the suppliers meet their commitments.

## 29. Immovable property and other production facilities

The plot of land occupied by the Company is 237.00 m<sup>2</sup>. It is located in the central part of Vilnius (in Naujamiestis, close to the railway). The plot of land is used on the basis of a lease agreement with Vilnius City Board.

The Company has a spirit distillery in Obeliai, Rokiškis district.

Table 29.1. Main buildings and constructions

Name	Residual value as of 31/12/2006, LTL	Beginning of exploitation	Condition
1. production unit	889,223	1971	good
2. Warehouse for raw materials and other goods	200,649	1964	good
3. Chemical fire extinguishing station	111,559	1975	good
4. Rectification facilities	407,991	1969	good
5. Heating unit	30,632	2000	good
6. Water cooling unit	162,910	1997	good
7. Warehouse for finished products	3,062,560	2005	good
IN OBELIAI DISTILLERY:			
7. Fermentation department	458,158	1985	good
8. Grain storage No.2	293,337	1990	good
9. Scale (weighing) building	250,713	1995	good
10. Grain storage No.1	229,202	1983	good
11. Spirit unit	291,424	1958	good
12. Boiler	137,424	1977	good

As of 1 January 2006, the Company had unused or partly unused non-current property (construction in progress) with the residual value of LTL 3,265.2 thousand. Construction in progress was related to the construction of the soft drinks production unit in Vilnius. The strategic plans of the Company changed and





this construction was suspended in 1994. At the end of 2006, the value of the remaining part of the construction in progress was reduced by LTL 181 thousand.

As of 31 December 2006, the residual value of the construction in progress was LTL 3,092.4 thousand.

### 30. Risk factors related to the issuer's activities

**Economic risk factors. Repayment of bank loans.** Strong competing producers and importers of alcoholic drinks represent the main risk factor. With the increasing competition, the Company focuses on the creation of trademark image and strengthening of its sales positions in the market.

In 2006, AB Vilniaus Degtinė had no problems regarding the procurement of raw materials required for the production. Contracts on long-term supplier have been signed and specific terms of supply have been set forth. Sales contracts with the buyers are usually concluded for a calendar year.

Due to the increase in sales volumes and extension of payment terms the amounts receivable within one year increased by LTL 3,468.4 thousand in 2006 compared to 2005. Trade receivables overdue for more than 30 days amounted to LTL 58.9 thousand as of 31/12/2006.

The major part of payables and liabilities consisted of long-term and medium-term credits given by Vilnius branch of Bayerische Hypo-und Vereinsbank AG. The long-term credit (EUR 4,930 thousand) was used to purchase licences. The medium-term credit (EUR 543.8 thousand) was used increase the working capital. As of 31/12/2006 the Company had not used the credit limit (overdraft) provided by Bayerische Hypo-und Vereinsbank AG.

As of 31/12/2006, financial obligations to credit institution amounted to LTL 14,469.0 thousand. In 2006, the average interest rate for long-term credit was 4.66 percent, medium-term – 4.75 percent, overdraft – 4.48 percent; the maturity of the loan is 15 March 2011.

During 2006, AB Vilniaus Degtinė repaid the remaining LTL 375.5 thousand of the medium-term credit and LTL 2,553.3 thousand of the long-term credit. The whole amount of LTL 35.3 thousand was paid back to UAB SEB VB Lizingas according to the financial lease contract.

Trade debts decreased by 26.7 percent compared to the previous year. The Company has no overdue trade debts. Excise tax payable for the 2<sup>nd</sup> decade of December 2006 accounts for the major part of other payables and current liabilities.

Assets of the Company pledged to secure the overdraft, medium-term and long-term credits issued by Vilnius branch of Bayerische Hypo-und Vereinsbank AG amounted to LTL 36,647.3 thousand as of 31/12/2006.

Table 30.1. Pledged assets of the Company

Pledged assets	Residual (actual) value of the assets as of 31/12/2006, thou. LTL
Buildings and structures	10,598.0
Equipment	1,997.2
3. Property right (residual value of the brand name specified as the claim right to the permit agreement concerning the brand name)	16,707.1
4. Property right – the right to lease land	-
Cash in the bank account with Vilnius branch of Bayerische Hypo- und Vereinsbank AG	350.4
Inventories	6,994.6
<b>Total</b>	<b>3,6647.3</b>

To secure the overdraft and long-term credit issued by Vilnius branch of Bayerische Hypo-und Vereinsbank AG the claim right to the receivables according to the sales agreements with UAB Belvedere Prekyba, UAB Aibės Logistika and UAB Palink has been transferred for the total amount of LTL 19,736.3 thousand.

On 07/09/2006, the Company undertook to the State Tax Inspectorate to meet its tax liabilities in relation to the storage and transportation of goods that are subject to excise tax. The liability amounts to LTL 7,100



thousand and it is valid until 30/09/2007.

The analysis of the key financial indicators show that the liquidity level of the Company is rather high and it has enough liquid assets. Gross profit margin ratio is also high – 52.4 percent. It indicates rational marketing activities, sound pricing and competition policies, increase in production and sales efficiency. The stability of the return on assets (ROA) indicates the more efficient use of the assets. Debt to equity ratio decreased compared to the previous financial year and its value – 1.062 – does not present any threat to the creditors.

In 2006, negative net cash flows from operating activities (LTL 555.4 thousand) resulted from the increase in prepayments, inventories and trade receivables, and decrease in trade payables. Negative net cash flows from investing activities (LTL 3,081.2 thousand) were due to the acquisition of long-term assets. Negative net cash flows from financing activities (LTL 3,761.6 thousand) resulted from the payment of the part of the loans and interest to the bank. The total decrease in cash and cash equivalents in 2006 in the Company was LTL 7,398.2 thousand.

**Ecological risk factors.** Last year, no fines or restrictions on or suspensions of the production were imposed on the Company for the environmental pollution. No other ecological risk factors or accidents took place in 2006. In 2006, the Company paid LTL 25.7 thousand in pollution tax and LTL 20.9 thousand for the consumption of natural resources. The Company has concluded agreements regarding the packaging waste handling. During 2006, LTL 652.8 thousand was spent on package handling. These costs are likely to increase with the growing production volumes.

**Technical and technological risk factors.** Since a number of technological equipment in the Company is worn out, in order to eliminate technical risk factor, particular attention is given to the updating of equipment, development of technological processes and improvement of product quality.

**Social risk factors.** Employees of the Company are regularly upgrading their qualifications in various courses, seminars, and study in high schools. Wages and salaries are regularly reviewed and increase, taking into consideration the ongoing changes in the country. The salaries are paid on time.

**Political risk factors.** Changes of laws of the Republic of Lithuania (in particular Law on Excise Duty) and legal acts of the Republic of Lithuania and European Union, which regulate production, description, arrangement, marketable presentation of alcoholic drinks, may have influence on Company's economic and financial activity.

### **31. Suspension or reduction of production that has or had material impact on the performance of the issuer during the last two financial years**

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

In 2006, the distillery was closed in August and September for the necessary repairs of the equipment – capital repairs of distillation column was carried out, more efficient and higher capacity containers for transforming starch into sugar were manufactured and installed. This enabled increasing production volume by 25-30 percent. Current repairs were carried out in the boiler and grain storage, new track for transferring alcohol from production facilities to the warehouse was installed, fermentation, administrative, weighting premises as well as security post underwent repairs. Big cargo vehicle for grain transportation was purchased.

### **32. Patents, licences, contracts**

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



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

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

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

### 33. Court (arbitration) proceedings

In 2006, no court (arbitration) proceedings likely to have had or to have a material effect on the financial position of the Company took place.

### 34. Employees

Average number of employees on the payroll in 2006 was 236. Due to the increase of production volumes, the average number of employees increased by 12.9 percent compared to 2005 (209 employees).

Table 34.1. Average number of employees on the payroll in 2004–2006

	2006	2005	2004
Number of employees	236	209	229

As of 31/12/2006, there were 245 employees working in the Company (218 employees as of 21/12/2005).

The average monthly salary in 2006 was LTL 1,874.89. Compared to 2005, it increased by 12.4 percent as a result of salary raise in May 2006.

Table 34.2. Average monthly salary, LTL

Employees	2006		2005		2004	
	Number of employees (31 December)	Average salary, LTL	Number of employees (31 December)	Average salary, LTL	Number of employees (31 December)	Average salary, LTL
Managers	5	6 233	4	6 255	5	7 284
Specialists	60	2 784	54	2 484	56	1 734
Workers	180	1 554	160	1 345	124	1 323
<b>Total:</b>	<b>245</b>	<b>1 875</b>	<b>218</b>	<b>1 668</b>	<b>185</b>	<b>1 574</b>

Table 34.3. Breakdown of the employees by education

	Number of employees as of 31/12/2006	Number of employees as of 31/12/2005	Number of employees as of 31/12/2004
University education	45	40	39
College education	60	51	44
Secondary or vocational education	130	116	94
Incomplete secondary education	10	11	8

Employees of the Company are constantly upgrading their qualification in various seminars and courses. In 2006, 4 employees of the Company obtained university degrees through correspondence studies. In 2007, 14 employees of the Company continue their studies. Employees of the Company take part in the GPD project



“Development of human resources of the companies uniting industry and regional associations of Lithuanian Confederation of Industrialists”. Employees that participate in this project study foreign languages, increase their computer skills, take part in seminars developing social skills, expanding their competence and ability to adjust to the changes.

### 35. Investment policy

Investments of AB Vilniaus Degtinė into other companies have never exceeded 30 percent of its authorised capital. In 2004-2006, no major investments projects were implemented.

In 2006, LTL 3,209.6 thousand were invested in the Company and LTL 933.2 thousand was spent on the repairs of buildings.

Main investments in 2006 (LTL 3,209.6 thousand) were used for the following:

- purchasing technological equipment – LTL 2,672.3 thousand;
- capital repairs – LTL 357.9 thousand;
- purchasing intangible assets – LTL 48.4 thousand;
- purchasing other assets – LTL 131.0 thousand.

Last year, measures for improving technological process were implemented, equipment was updated, organisation of labour was improved, capacities of production facilities were rationally used, working conditions were improved and other effective measures allowing faster introduction of new products into production, improving product quality and reducing production losses were introduced in the Company. After successful reorganisation of production processes, production volumes increased by 46 percent.

Investments for improvement of production technology and expanding production capacity in 2006:

- one bottling-capping monoblock and additional banderols gluing apparatus installed;
- 3 new reducers with variators installed in order to increase the capacity of bottle transporting lines;
- new bottle labelling machine installed;
- mechanic cap feeding line installed and launched;
- 3 freezing chambers for storing frozen berries purchased;
- additional changing room for employees prepared;
- video surveillance system installed for control purposes;
- additional air compressor installed in vodka production unit, ensuring reliable control of technological equipment and mixing of vodka products;
- 10 new 5.5 m<sup>3</sup>, containers installed with service platforms;
- repair of rectification column carried out (these changes were necessary in order to continue using rectification column);
- refractometer installed in the laboratory to perform the necessary product quality analysis;
- two new stainless-steel 100 m<sup>3</sup> containers with electronic level indicator installed in the spirit warehouse (the indicator system enables effective monitoring of the amount of spirit in the containers);
- automatic ventilation system installed;
- 2 new electric stackers set into use in the warehouse for finished products (this increased the intensity of transportation of production and improved working conditions of the stacker operators);
- freezing chamber installed in the juice and wine warehouse for storing concentrated juice, flavour substances and other raw materials that must be stored in low temperatures;



- transporter for transporting containers with raw materials from/to the cellar constructed and installed;
- critical repairs of production and administrative premises carried out.

Entire documentation of quality control system was reviewed and adjusted according to the existing situation. Technological and regulatory documents were adjusted. Technological regulations for production of alcohol products were adjusted and supplemented, product recipes were reviewed, yield of material resources were observed. Quality management system ISO 9001:2000 was implemented in the Company, validity of the certificate extended until 2009.

### 36. Competitors

The main competitors of the Company are public companies AB Alita, AB Anykščių Vynas and AB Stumbras. Imported alcohol beverages strengthen competition. More and more cheaper beverages are being imported from other Baltic countries.

### 37. Dividends paid

Table 37.1. Dividends paid

For the financial year	Dividends paid, LTL	Amount of dividends per share, LTL
2001	268,493	0.011
2002	488,169	0.02
2003	-	-
2004	-	-
2005	-	-
2006	-	-



## V. FINANCIAL STATUS

### 38. Financial statements

#### 38.1. Balance sheet

In LTL	31/12/2006	31/12/2005	31/12/2004
<b>ASSETS</b>			
NON-CURRENT ASSETS			
Property, plant and equipment	18,822,194	17,739,764	19,080,427
Intangible assets	16,838,794	17,843,638	18,844,034
Other non-current assets	24,143	25,872	20,276
Deferred income tax assets	399,309	432,761	433,729
TOTAL NON-CURRENT ASSETS	36,084,440	36,042,035	38,378,466
CURRENT ASSETS			
Inventories	6,994,649	5,138,277	5,484,607
Prepayments and deferred expenses	1,578,708	176,072	129,257
Trade receivables	28,082,669	24,622,916	10,468,862
Other receivables	207,815	199,182	225,529
Cash and cash equivalents	384,747	7,782,968	973,330
TOTAL CURRENT ASSETS	37,248,588	37,919,415	17,281,585
<b>TOTAL ASSETS</b>	<b>73,333,028</b>	<b>73,961,450</b>	<b>55,660,051</b>
<b>EQUITY AND LIABILITIES</b>			
CAPITAL AND RESERVES			
Authorised capital	24,408,431	24,408,431	24,408,431
Legal reserve	2,440,843	2,440,843	2,440,843
Other reserves			10,040,735
Retained earnings (loss)	8,716,239	4,960,827	(8,522,678)
TOTAL EQUITY	35,565,513	31,810,101	28,367,331
NON-CURRENT LIABILITIES			
Loans and other amounts subject to interest calculation	11,064,498	14,468,958	17,433,118
Deferred income tax liability	891,463	803,707	310,629
TOTAL NON-CURRENT LIABILITIES	11,955,961	15,272,665	17,743,747
CURRENT LIABILITIES			
Loans and other amounts subject to interest calculation	3,404,461	2,964,186	1,613,905
Trade payables	6,374,199	8,695,203	2,569,980
Advance payments received	19,990	104,844	128,081
Income tax liability	259,481	21,910	6,389
Other payables	15,753,423	15,092,541	5,230,618
TOTAL CURRENT LIABILITIES	25,811,554	26,878,684	9,548,973
TOTAL LIABILITIES	37,767,515	42,151,349	27,292,720
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>73,333,028</b>	<b>73,961,450</b>	<b>55,660,051</b>



## 38.2. Income statement

In LTL	2006	2005	2004
SALES	61,349,196	47,075,913	29,347,089
Cost of sales	(29,201,839)	(20,531,588)	(16,018,597)
GROSS PROFIT	32,147,357	26,544,325	13,328,492
Other income	298,213	361,294	772,517
Sales and distribution expenses	(16,481,989)	(12,937,965)	(5,462,684)
Administrative expenses	(10,807,147)	(8,554,795)	(7,761,157)
Other expenses	(209,037)	(687,443)	(536,000)
OPERATING RESULT	4,947,397	4,725,416	341,168
Income from financing activities	103,139	103,206	60,078
Expenses of financing activities	(817,189)	(763,575)	(492,405)
PROFIT BEFORE TAX	4,233,347	4,065,047	(91,159)
Income tax	(477,935)	(622,277)	(30,854)
PROFIT FOR THE YEAR	3,755,412	3,442,770	(60,305)

## 38.3. Statement of changes in equity

In LTL	Authorised capital	Legal reserve	Other reserves	Retained earnings (loss)	Total equity
CAPITAL AND RESERVES AS OF 01/01/2004	24,408,431	2,440,843	9,799,712	(8,272,273)	28,376,713
Result of change in accounting policies				50,923	50,923
RECALCULATED CAPITAL AND RESERVES AS OF 01/01/2004	24,408,431	2,440,843	9,799,712	(8,221,350)	28,427,636
Profit for 2004				935,139	935,139
Result of change in accounting policies				72,177	72,177
Formed reserves			241,023	(241,023)	
CAPITAL AND RESERVES AS OF 01/01/2005	24,408,431	2,440,843	10,040,735	(7,455,057)	29,434,952
Result of change in accounting policies				(1,067,621)	(1,067,621)
RECALCULATED CAPITAL AND RESERVES AS OF 01/01/2005	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 2005				3,857,308	3,857,308
Capital and reserves as of 31/12/2005	24,408,431	2,440,843	0	5,375,365	32,224,639
Result of change in accounting policies				(414,538)	(414,538)
RECALCULATED CAPITAL AND RESERVES AS OF 31/12/2005	24,408,431	2,440,843	0	4,960,827	31,810,101
Profit for 2006				3,755,412	3,755,412
CAPITAL AND RESERVES AS OF 31/12/2006	24,408,431	2,440,843	0	8,716,239	35,565,513



## 38.4. Cash Flow Statement

In LTL	2006	2005	2004
Net result (profit)	3,755,412	3,442,770	(60,305)
Adjustments for non-cash items:			
Depreciation and amortisation	2,931,916	3,029,278	1,969,618
Impairment loss on construction in progress	181,020	337,753	-
Impairment of trade receivables and other receivables	(3,974,919)	(383,604)	(246,596)
Impairment loss on inventories	(111,377)	(319,529)	(802,576)
Net financial expenses	703,943	664,482	428,262
Gain (loss) from transfer of non-current assets	(17,969)	171,766	(100,929)
Income tax	477,935	622,277	(30,854)
NET CASH FLOWS FROM CORE ACTIVITIES BEFORE THE CHANGES IN WORKING CAPITAL	3,945,961	7,565,193	1156620
Change in inventories	(1,732,395)	612,398	2,834,072
Change in prepayments and deferred expenses	(1,401,747)	(52,411)	79,775
Change in trade receivables and other receivables	506,540	(13,754,022)	(4,530,469)
Change in trade payables and other payables	(1,754,631)	15,966,328	1,118,016
NET CASH FLOWS FROM CORE ACTIVITIES	(436,272)	10,337,486	658,014
Income tax paid	(119,156)	(112,711)	(83,216)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(555,428)	10,224,775	574,798
Interest received	103,972	108,094	49,265
Income from transfer of non-current assets	24,448	52,928	415,772
Acquisition of property, plant and equipment	(3,161,168)	(1,119,150)	(1,076,391)
Acquisition of non-current intangible assets	(48,433)	(78,055)	(19,068,418)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,081,181)	(1,036,183)	(19,679,772)
Loans repaid	(2,928,837)	(1,501,968)	(8,160,915)
Loans received			27,060,679
Payments of financial lease	(35,348)	(111,911)	(265,017)
Interest paid	(797,427)	(764,639)	(442,038)
Dividends paid	0	(436)	(310)
Other (decrease) in cash flows from financing activities			(8,194)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(3,761,612)	(2,378,954)	18,184,205
NET CASH FLOWS FROM OPERATING, INVESTING AND FINANCING ACTIVITIES	(7,398,221)	6,809,638	(920,769)
CASH AND CASH EQUIVALENTS AS OF 1 JANUARY	7,782,968	973,330	1,894,099
CASH AND CASH EQUIVALENTS AS OF 31 DECEMBER	384,747	7,782,968	973,330

## 39. Comments on the Financial Statements

Explanatory Notes to the Financial Statements of AB Vilniaus Degtinė are enclosed to the Annual Prospectus – Report (Annex 1. Financial Statements for the year ended 31 December 2006, p. 11 – 41).

## 40. Annual Report

Annual Report of AB Vilniaus Degtinė is enclosed to the Annual Prospectus – Report (Annex 1. Financial Statements for the year ended 31 December 2006, p. 42 – 60).





#### 41. Information about the audit

The audit of the Balance Sheet as of 31 December 2006, the Income Statement of the year then ended, the Statement of Changes in Equity, the Cash Flow Statement, the summary of material accounting principles and other Explanatory Notes of AB Vilniaus Degtinė was performed by auditor Ieva Voverienė of UAB KPMG Baltics.

Information about the audit firm that has conducted the audit

Address	Vytauto Str. 12, LT-08118 Vilnius
Telephone	(8~5) 210 2600
Fax	(8~5) 210 2659
E-mail	<a href="mailto:vilnius@kpmg.lt">vilnius@kpmg.lt</a>
Website	<a href="http://www.kpmg.lt">www.kpmg.lt</a>

The audit was completed on 23 February 2007.

In the auditor's opinion, the financial statements for 2006 in all material respects give a true and fair view of the financial status of the AB Vilniaus Degtinė and of the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards accepted for use in the European Union.

The auditor has also read the Annual Report for 2006 and did not observe any material unconformities of the included financial information for 2006 to the Financial Statements for the year ended 31 December 2006.

The Auditor's Report is attached to the Annual Prospectus – Report (Annex 1. Financial Statements for the year ended 31 December 2006, p. 4-5).



## VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

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

The Company's Supervisory Board of 3 members is elected for a term of four years by the General Shareholders' Meeting. The Supervisory Board elects and recalls the members of the Board.

The Company's Board consists of 5 members. The Board elects and recalls the Company's Director General, determines its salary and other terms of the Employment Contract, approves job description, gives incentives and imposes penalties. The Board acts in accordance with Articles of Association approved by the General Shareholders' Meeting and working regulations approved by the Board.

In 2006, the managing bodies of the Company steadily, actively resolved all issues of the Company. 3 meetings of Supervisory Council and 9 Board meetings took place in 2006. At these meetings, strategic issues of the Company related to the production program, investment plans and results of financing activities were being discussed.

### 42. Members of the managing bodies

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

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

Name, surname	Position	Share of the capital/ votes held, % as of the day of the registration of general shareholders meeting
<b>SUPERVISORY COUNCIL</b>		
Rūta Plungaitė (until 17/04/2007)	Chairwoman	-
Dariusz Jamiola (since 17/04/2007)	Chairman	-
Tomasz Kowalski	Member	-
Since 17/04/2007 Ilona Šerlatienė	Member	-
<b>BOARD</b>		
Darius Žaromskis	Chairman	19.99
Danas Kerbelis	Member	-
Andrėjus Galuška	Member	-
Raimundas Čičirka	Member	-
Audra Jauniškienė	Member	-
<b>ADMINISTRATION</b>		
Danas Kerbelis	Director General	-
Audra Jauniškienė	Finance and Administration Director	-

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

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

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



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

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

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

Name, surname	Position and name of the company or organisation	Share of capital and votes held in other enterprises exceeding 5 percent, %
Rūta Plungaitė	Deputy Director of UAB Kaminera	-
Iłona Šerlatienė	Chief Financier of UAB Kaminera	-
Tomasz Kowalski	Commercial Director of Sobieski Sp.z.o.o.	
Dariusz Jamiola	CFO of Sobieski Sp.z.o.o.	
Darius Žaromskis	UAB Kamineros Grupė	50.0
	Board Member of AB spaustuvė Spindulys	8.10
	UAB Svilita	100.0
	AB Biržų Agroservisas	20.0
	UAB Bagiam	25.0
	Board Member of AB Sanitas	-
	Board Member of AB Umega	-
	UAB Jungtinis Turto Centras	25.0
	UAB Urbino Investment	19.00
Danas Kerbelis	Director of Lithuanian-French UAB Belvedere Baltic	-
Andrėjus Galuška	CFO of UAB Belvedere Prekyba	-
	CFO of UAB Kamineros Grupė	
Raimundas Čičirka	Director General of UAB Belvedere Prekyba	-
Audra Jauniškienė	-	-

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

Members of managing bodies have never been convicted for crimes against property, business procedures and finances.

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

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

Name, surname	Beginning of the term	End of the term
<b>SUPERVISORY COUNCIL</b>		
Rūta Plungaitė	13/11/2003	17/04/2007
Iłona Šerlatienė	17/04/2007	2008
Tomasz Kowalski	29/04/2004	2008
Dariusz Jamiola	29/04/2004	2008
<b>BOARD</b>		
Darius Žaromskis	04/08/2005	2007



Raimundas Čičirka	13/11/2003	2007
Andrėjus Galuška	13/11/2003	2007
Audra Jauniškienė	11/04/2006	2007
Danas Kerbelis	11/04/2006	2007

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

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

	Salaries paid, LTL	Bonuses, LTL	Other payments, LTL
To the members of Supervisory Council	-	-	-
To the Board members	-	-	-
To the members of Administration (Director General and Finance Director)	109,817	-	-
Average per one member of administration	54,909	-	-

43.2. Total amounts of bonuses, salaries and other payments from profit made during the reporting period to members of the Supervisory Board, the Board and the administration, received from enterprises where the issuer's part in the authorized capital accounts for more than 20 percent.

There were none.

43.3. Loans granted to members of managing bodies over the reporting period, guarantees and warranties issued to secure the fulfilment of their obligations

There were none.

### 44. Related party transactions

Related parties of the Company are:

- parties controlling the Company, other companies controlled by the Company and the companies that have control together with the Company;
- parties that can have material impact on the activities of the Company;
- parties who are management members of the company or its controlling company;
- persons related by close ties of kinship with the aforesaid persons;
- companies that are under control or material impact of the aforesaid persons.

Parent company and managing parent company are:

- Sobieski Sp. Z.o.o. (parent company)
- Belvedere S.A. (managing parent company)

Other major related parties are:

- UAB Belvedere Prekyba (company of Belvedere group)
- Sobieski Destylarnia S.A. (company of Belvedere group)
- Vinimpex PLC (company of Belvedere group)
- UAB Belvedere Baltic (company of Belvedere group)
- Fabryka Wodek Polmos Lancut (company of Belvedere group)
- Darius Žaromskis (shareholder)



## Sales to and purchases from related parties:

	Transaction type	2006
PURCHASES FROM:		
Companies of Belvedere group	Purchase of services	6,651,193
Companies of Belvedere group	Purchase of raw materials	4,554,253
Shareholder	Purchase of services	189,600
Parent company	Purchase of inventories	345
Managing parent company	Purchase of inventories	0
TOTAL PURCHASES		11,395,391
SALES TO:		
Companies of Belvedere group	Sale of production including excise tax	114,908,857
Parent company	Sale of production including excise tax	402,899
Companies of Belvedere group	Sale of services	71,646
Parent company	Other income	0
Managing parent company	Sale of production including excise tax	0
TOTAL SALES		115,383,402
Excise tax		78,218,997
TOTAL SALES, LESS EXCISE TAX		37,164,405

## Outstanding balances with related parties as of 31/12/2006:

TRADE RECEIVABLES	
From the companies of Belvedere group	14,337,477
From parent company	185,635
From managing parent company	0
TOTAL TRADE RECEIVABLES	14,523,112
TRADE PAYABLES	
To the companies of Belvedere group	1,797,661
TOTAL TRADE PAYABLES	1,797,661

All outstanding amounts are calculated at market prices.



## VII. LATEST AND MATERIAL EVENTS OF THE ISSUER AND ITS PROSPECTS

### 45. Latest developments in the issuer's activities

Resolutions of the General Shareholders' Meeting of 17/04/2007:

1. Approve the Auditor's Report.
2. The Meeting heard the comments and recommendations of the Supervisory Council.
3. Approve the Annual Report of the Company for 2006.
4. Approve Financial Statements of the Company for 2006, according to which the Company's assets as of 31 December 2006 were in the amount of LTL 73,333,028, equity – LTL 35,565,513 and net profit for the year – LTL 3,755,412.
5. Approve profit (loss) distribution:
 

1. Retained earnings (loss) carried forward from the previous year	LTL 4,960,827
2. Net profit (loss) for the reporting year	LTL 3,755,412
3. Profit (loss) for the reporting year unrecorded in the income statement	none
4. Transfers from reserves	none
5. Shareholders contributions to cover the loss	none
6. Total profit (loss) for distribution	LTL 8,716,239
7. Profit share to legal reserve	none
8. Profit share to reserve for purchasing own shares	none
9. Profit share to other reserves	none
10. Profit share for dividends	none
11. Profit share to for annual bonuses to the members of Supervisory Council, employees and for other purposed	none
12. Retained earnings (loss) at the end of the reporting period to be carried forward to the next financial year	LTL 8,716,239
6. Recall Rūta Plungaitė from the members of the Supervisory Council. Elect Iлона Šerlatienė a member of the Supervisory Council.
7. To amend the Articles of Association of the Company by changing:
  - part of clause 37.4 of the Articles of Association “Regarding purchasing non-current assets, except financial assets, for an amount exceeding LTL 500 thousand” and formulate it as follows: “Regarding purchasing non-current assets, except financial assets, when the acquisition cost of such asset exceeds LTL 700 thousand;”
  - part of clause 46.4 of the Articles of Association “Regarding purchasing non-current assets for an amount exceeding LTL 100 thousand” and formulate it as follows: “Regarding purchasing non-current assets for an amount exceeding LTL 200 thousand;”
  - clause 50 of the Articles of Association “To adopt any resolution of the Board provided for in paragraph 2 of part 6 of Article 35 of the Company Law of the Republic of Lithuania decision of the General Shareholders' Meeting adopted by the majority of at least 2/3 of votes is required. The total balance value of non-current assets transferred, leased or mortgaged by transactions concluded without the approval of the General Shareholders' Meeting and the total amount of warranted of guaranteed liabilities of other entities within a financial year may not exceed 1/20 of the authorised capital of the Company” and formulate it as follows: “For any resolution of the Board regarding transfer, lease, mortgage of non-current assets for the amount exceeding 1/20 of the authorised capital of the Company and decision of the Board to warrant or guarantee the fulfilment of the liabilities of other entities, exceeding 1/20 of the authorised



capital of the Company, approval of the Meeting adopted by the majority of at least 2/3 of votes is required.”

- clause 73 of the Articles of Association “No later than 30 days before the Meeting, shareholders must be provided with the possibility to get acquainted with the Company documents related to the agenda of the Meeting, including draft resolutions and the application submitted to the Board of the Initiators of Calling the Meeting or Head of Administration. If a shareholder so request in writing, the Head of Administration must deliver all draft resolutions of the Meeting to the shareholder upon signature or send them by registered mail no later than within 3 days after the receipt of the written request. Together with draft resolutions, it must be indicated on whose initiative they were included. If the initiator of the draft resolution presented explanations of the draft resolution, these must be enclosed to the draft resolution” and formulate it as follows: “10 days before the Meeting, shareholders must be provided with the possibility to get acquainted with the Company documents related to the agenda of the Meeting, including draft resolutions and the application submitted to the Board of the Initiators of Calling the Meeting. If a shareholder so request in writing, the Head of the Company must deliver all draft resolutions of the Meeting to the shareholder upon signature or send them by registered mail no later than within three days after the receipt of the written request. It must be indicated on whose initiative these draft resolutions were submitted. If the initiator of the draft resolution presented explanations of the draft resolution, these must be enclosed to the draft resolution.”

- clause 75 of the Articles of Association “No later than 30 days before the Meeting, where the approval of Company’s reorganisation project is on the agenda, each shareholder must be given a possibility at the office of the Company under reorganisation to get acquainted with the documents indicated in Article 69 of the Company Law of the Republic of Lithuania. Upon the request of a shareholder, the Company must present the copies of these documents free of charge.” and formulate it as follows: “30 days before the Meeting, where the approval of Company’s reorganisation project is on the agenda, each shareholder must be given a possibility at the office of the Company under reorganisation to get acquainted with all the documents related to the reorganisation of the Company. Upon the request of a shareholder, he/she must be presented with the copies of these documents free of charge.”

8. Elect audit firm UAB KPMG Baltics to be the auditor of the Company. Authorise the Director General of the Company to sign a service agreement with UAB KPMG Baltics regarding the audit of the financial statements for 2007 and payment of agreed price for the services, not exceeding the amount of 80,000 LTL (+VAT).

On 17 April 2007 AB Vilniaus Degtinė received a notice from Darius Žaromskis regarding the loss of a part of a block of shares. The reason for infringement of the declared limit was the transfer of shares through an OTC transaction.

On 17 April 2007 AB Vilniaus Degtinė received a notice Arūnas Tuma about the acquisition of a part of block of shares. The reason for infringement of the declared limit was the acquisition of shares through an OTC transaction.

#### **46. Material events in the issuer’s activities**

On 11 April 2006, at the meeting of the Supervisory Council of AB Vilniaus Degtinė it was decided to recall members of the Board Pranas Januševičius and Marius Šulčis and to elect Director General of the Company Danas Kerbelis ir the Head of Administration Audra Jauniškienė new members of the Board.

The General Shareholders’ Meeting of 2006 AB Vilniaus Degtinė that took place on 12 April decided to approve the Auditor’s Report, to approve the Company’s Annual Report for the year 2005, annual Financial Statements for 2005, which showed that as of 31 December 2005 the Company’s assets amounted to LTL 75,443,609; shareholders’ equity amounted to LTL 33,292,260 and the net profit was LTL 3,857,308. The General Shareholders’ Meeting approved the following profit distribution:

I. Retained earnings (loss) at the beginning of the reporting period	(LTL 7,455,057)
II. Net result of the reporting period (profit (loss))	LTL 3,857,308



II a. Transfers from reserves	LTL 10,040,735
III. Appropriated result (profit (loss)) at the end of the reporting period	LTL 6,442,986
IV. Shareholders' contribution to cover the losses	none
V. Transfers from reserves	none
VI. Profit for distribution	LTL 6,442,986
VII. Profit distribution:	none
VII.1. To legal reserve	none
VII.2. To other reserves	none
VII.3. Dividends	none
VII.4. Other payments from profit	none
VIII. Retained earnings (loss) brought forward at the end of the reporting period	LTL 6,442,986

The Meeting did not approve of the proposal of the Board to select UAB Mokesčių Ekspertų Biuras to be the auditor of the Company. UAB KPMG Baltics was elected auditor instead.

#### 47. Strategy and its prospective changes during the next few following financial years

The production programme for the year 2007 foresees an increase in the sales volumes of 16 percent, compared with that in 2006.

Table 47.1. Production programme for 2007, thousand litres

Product type	Quantity
Vodka products	10,828.6
Bitters	953.8
Liqueurs	215.6
Gin	30.5
Scottish whisky	3.4
Brandy	352.5
Total	12,384.4

Goals and objectives for 2007:

- further improve technological production process, improve the assortment and product quality, introduce new products;
- increase the competitiveness of the products on the market;
- increase the assortment of imported drinks and their sales;
- replace worn-out, inefficient equipment, expand production capacities for spirit and its products;
- modernise the existing production processes, reducing the needs for labour power.

Another priority task for this year is the development of export. Export to Latvia, which was started last year, will be activated, and it is expected to expand export market to other countries. The plan is to offer mostly vodka and bitters to the foreign markets.

Under undefined market and complicated forecasting of possible changes, the plan for this year is to simultaneously develop several trademarks, produce and introduce to the market several new products.