

# ***AB STUMBRAS***

INTERIM REPORT FOR THE PERIOD OF SIX MONTHS OF 2008

Kaunas, August 2008

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## 1. Reporting period covered by the Report

The interim report is prepared for the period of six months of 2008, ending on 30 June 2008. All amounts in the interim report present situation as at 30 June 2008, unless otherwise stated. Further in this report Stumbras AB can be referred to as the Company or the Issuer.

## 2. Issuer and its contact data

Issuer name	<i>Stumbras AB</i>
Legal/organisational form	public company
Authorised capital	LTL 40 000 000
Registration date and place	4 October 1995, Kaunas City Council
Registration certificate No.	AB 95 – 70B
Enterprise code	1320 82782
Enterprise VAT code	LT3208278211
Enterprise register	Register of Legal Entities of the Republic of Lithuania
Legal address	K. Būgos g. 7, LT- 44355 Kaunas
Phone No.	8 (37) 308800
Fax No.	8 (37) 308833
E-mail	<a href="mailto:stumbras@stumbras.lt">stumbras@stumbras.lt</a>
Website	<a href="http://www.stumbras.eu/lt">www.stumbras.eu/lt</a>

The Company has established no affiliates and agencies.

## 3. Nature of the Issuer's operations

The Company's principal activities represent production of and trade in ethyl alcohol and alcoholic drinks. The Company can pursue other activities stipulated in its Articles of Association.

## 4. Contracts with intermediaries of securities' public turnover

On 24 October 2003, the Company concluded a contract on the service of the Issuer with SEB Vilniaus Bankas AB (company code 112021238), Gedimino pr. 12, Vilnius, tel. (8 5) 268 2687, fax (8 5) 262 6043. In relationship with the Issuer the latter is represented by the Department of Financial Markets.

## 5. Information about trade in the Issuer's securities in the regulated markets

The Issuer's shares are listed on the Vilnius Stock Exchange. At the present moment, all 40,000,000 ordinary registered share with a par value of LTL 1 (one) comprising the Company's authorised share capital are listed on the Current List of the Vilnius Stock Exchange. ISIN code of securities: LT0000119430.

## 6. Objective overview of the Company's financial position, performance and development, description of its exposure to key risks and contingencies

As at 30 June 2008, Stumbras AB produced alcoholic drinks with 91 different names.

Main volumes of production over the period of the last 3 years are as follows (data is provided in decaliters (dal) and tons):

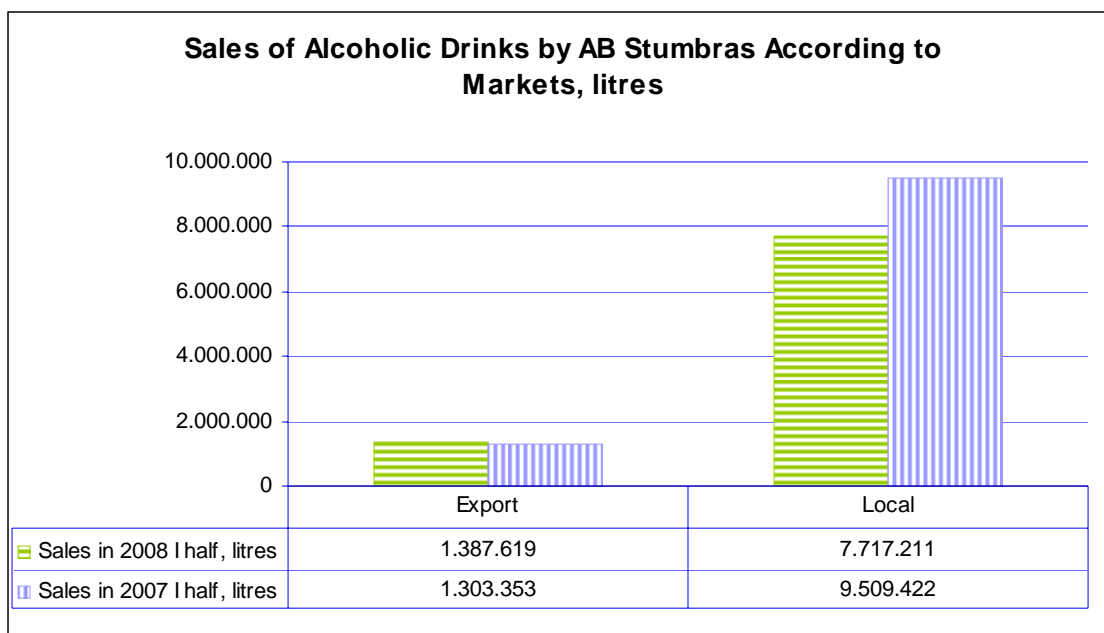
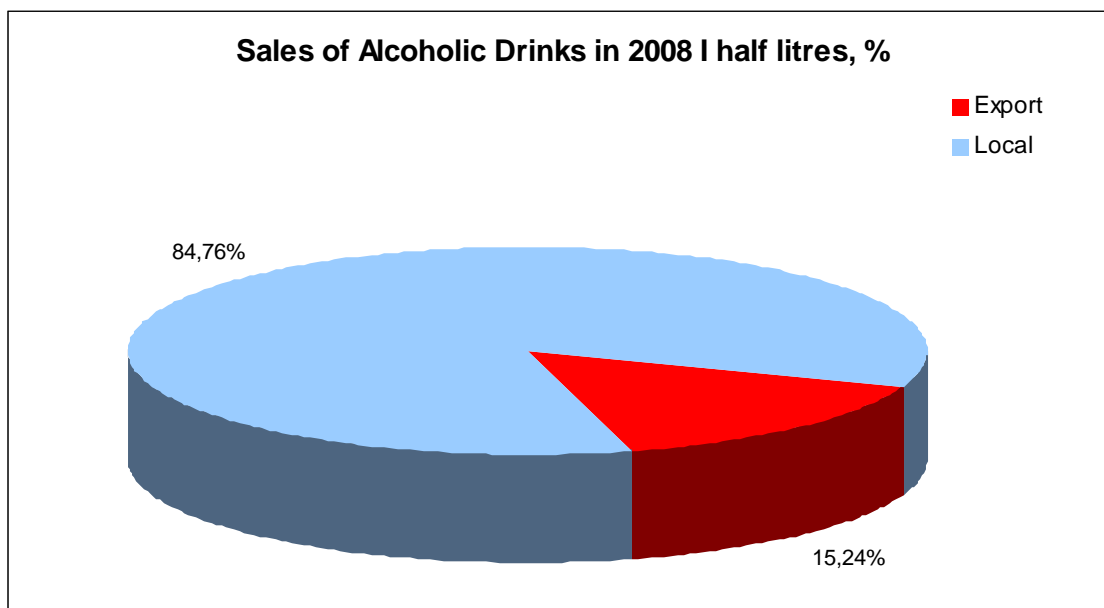
Name	Measurement unit	I half-year of 2007	I half-year of 2007	I half-year of 2006
Alcohol products	thousand dal	918	1 109	773
Including strong drinks	thousand dal	917	1 106	770
Other production	thousand tons	-	-	-

For the half-year period ended 30 June 2008, new products were launched: : vodka "Skaidrioji", "Bison grass vodka", herbal spirit drink "Red Nines", cocktail "Ozone Premium cocktail Cherry & Pear".

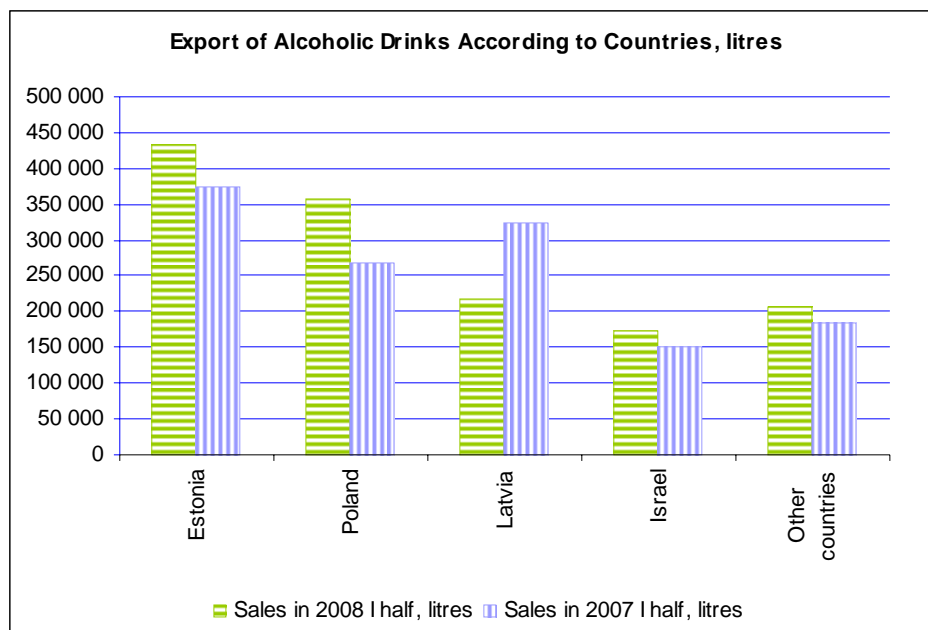
Rectified ethyl alcohol and alcoholic drinks are subject to excise duties established under legal acts of the Republic of Lithuania. The latter duties make a significant impact on changes in prices and volumes of sales of products produced by Stumbras AB. During a reporting period an excise duty of LTL 3,840 per hectoliter of pure ethyl alcohol was applicable to alcoholic drinks and ethyl alcohol (in accordance with Article 24 of the Law on Excise Duties of the Republic of Lithuania No. IX-569 (effective wording: 15 December 2007).

For the half-year period ended 30 June 2008, an average selling price of products LTL 10.47 per liter .

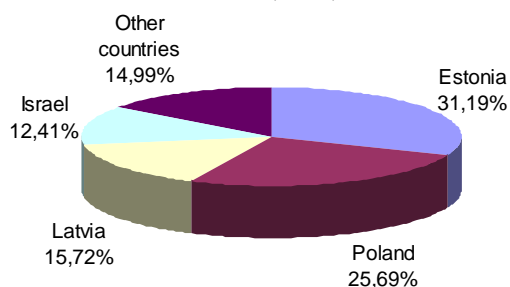
When implementing its obligations under earlier concluded long-term sales contracts and entering into new contracts, the Company ensures constant and scheduled sales of products.



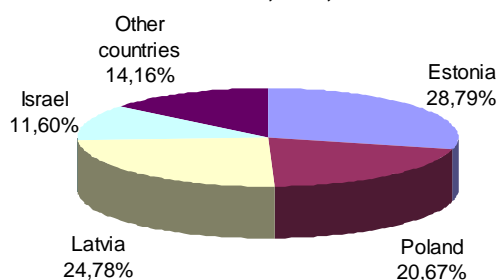
In the first half-year of 2008 most of the Company's production was exported to Estonia, Poland, Latvia and Israel (85.01% of all exported production). Other export destinations: US, Peru, Spain, Denmark, Great Britain, India, Singapore, Ireland, Canada, Norway, Belarus.



**Export of Alcoholic Drinks in the First Half of 2008, litres, %**



**Export of Alcoholic Drinks in the First Half of 2007, litres, %**



#### **Risk Factors Related to the Issuer's operations:**

**Economic factors.** The Company's principal activities represent production of and trade in strong alcoholic drinks. The Company's competitors in the market are other Lithuanian producers of strong alcoholic drinks and business entities importing and selling strong alcoholic drinks in the Republic of Lithuania. Performance of the Company may be also affected by the existing illegal production of alcoholic drinks and contraband in these products as well as in rectified ethyl alcohol. When assessing the Company's competitive features, it can be claimed that the potential of employees and technical-technological base serves as a ground for a successful operations of the Company in this market.

One of potential operational risks that the Company is exposed to represents circumstances when with a growing level of living standards of local residents, a part of consumers may start choosing imported drinks. Another operational risk may be linked with a growing power of commercial retail chains and their ability to affect sales of goods.

**Political factors.** Instability of laws and other regulatory legislation governing the Company's activities has a negative impact. One of potential risk factors capable of making an indirect impact on the performance of the Company represents restrictions on advertising of alcoholic drinks.

**Ecological factors.** Expenses of environmental pollution incurred by the Company for the half-year period ended 30 June 2008 amounted to LTL 1,156 thousand (LTL 840 thousand for the half-year period ended 30 June 2007). Costs related to the management of package waste released to the domestic market constitute the major part of these expenses. The increase in these expenses was determined by higher management costs and that from 2006 the Company started a gradual use of single-use packaging.

*Technical-technological factors* may impact the Company's economic and financial performance taking into consideration that rectified ethyl alcohol of other producers is used in the production process. The Company faces a substantial increase in dependence on providers of raw materials in respect of cost of products and quality.

*Factors of financial risk.* As at 30 June 2008, Stumbras AB had the following loans (LTL thousand):

<b>Long-term</b>	
Loans received from bank	10,384
<b>Short-term</b>	
Loans received from bank	4,615
<b>Total loans</b>	16,999

The whole amount of bank borrowings relate to a syndicated loan from two banks at a floating interest rate. This loan is to be repaid by 1 September 2011.

## 7. Analysis of financial and non-financial performance

For the half-year period ended 30 June 2008, the Company's revenue from sales of goods (net of excise duty) and provision of services amounted to LTL 69,451 thousand, i.e. 3.7 per cent more as compared to half-year period ended 30 June 2007 when revenue from sales (including discontinued operations) amounted to LTL 66,992 thousand.

The Company's profit before tax was LTL 16,999 thousand, i.e. 0.1 per cent less as compared to half-year period ended 30 June 2008 (including discontinued operations). During a reporting period, the Company's taxes paid or payable to the budget in accordance with the terms prescribed under regulatory legislation totalled LTL 133,264 thousand comprising:

- excise duty – LTL 100,973 thousand;
- value-added tax – LTL 25,743 thousand;
- social security tax – LTL 2,033 thousand;
- income tax of individuals – LTL 1,391 thousand;
- corporate income tax – LTL 2,439 thousand;
- other taxes – LTL 685 thousand.

The Company's key financial and economic performance indicators are as follows:

	30 June 2008	30 June 2007
Sales revenue, LTL thousand	69,451	66,992
Sales revenue in foreign markets, LTL thousand	7,211	5,971
Exports per total sales, per cent	10.4	8.9
Gross profit, LTL thousand	35,975	31,500
Gross profitability, per cent	51.8	47.0
Profit before tax, LTL thousand	16,999	17,021
Profitability before tax, per cent	24.5	25.4
Net profit, LTL thousand	14,560	14,014
Net profitability, per cent	21.0	20.9
EBITDA, LTL thousand	19,983	19,436
EBITDA profitability	28.8	29.0
Assets (at the end of the period), LTL thousand	108,330	111,430
including: non-current assets, LTL thousand	36,567	28,336
current assets, LTL thousand	71,763	83,094
Authorised share capital (at the end of the period), LTL thousand	40,000	40,000
Equity (at the end of the period), LTL thousand	59,009	57,596
Investments in modernisation of the Company, LTL thousand	1,994	4,407

For the half-year period ended 30 June 2008, the Company's costs related to waste management amounted to LTL 1,156 thousand i.e. 37.6 per cent more as compared to half-year period ended 30 June 2007 (LTL 840 thousand).

As at 30 June 2008 Stumbras AB had 305 employees. (30 June 2007: 333 employees).

During the reporting period the number of staff decreased due to lower volume of production.

In the 1<sup>st</sup> half-year of 2008 the Company was engaged in social and cultural activities: the main sponsor of Pažaislis Music Festival.

## 8. References and Additional Explanations Regarding the Data Represented in the Interim Financial Report

All financial data provided in this interim financial report is calculated based on International Financial Reporting Standards and is not audited, unless specified otherwise.

## 9. Information about own shares owned and acquired by the Company

Neither during previous periods, nor during a reporting period own shares have been acquired by the Company.

## 10. Significant events subsequent to the end of the previous financial year

During a general meeting of shareholders of Stumbras AB as of 31 March 2008 dividends for 2007 were announced amounting to LTL 0.80 (EUR 0.23) per one ordinary registered share with the nominal value of LTL 1 (one) and making a total amount of LTL 32 million.

## 11. Company's business plans and perspectives

In 2008, Stumbras AB aims for an increase in sales of products in the domestic market, in the EU countries and production export to the third countries.

In 2008, the Company expects to receive LTL 147.9 million from the sales of products and to earn LTL 33.1 million in profit before tax.

In 2008, the Company plans to invest nearly LTL 5 million in modernisation of production process.

## 12. Structure of the Issuer's authorised share capital

As at 30 June 2008, the Company's authorised share capital was comprised of 40,000,000 ordinary registered shares with par value of LTL 1 each.

Structure of the Company's authorised share capital according to categories of shares:

Category of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Percentage in the authorised share capital (%)
Ordinary registered shares	40,000,000	1	40,000,000	100.00
<b>Total</b>	<b>40,000,000</b>		<b>40,000,000</b>	<b>100.00</b>

All shares of Stumbras AB are fully paid.

The Company's shareholders shall have the following property rights:

- 1) to receive a part of the Company's profit (dividend);
- 2) to receive a part of assets of the Company in liquidation;
- 3) to receive shares without payment if the authorised share capital is increased out of the Company's funds, except in cases specified in the Law on Companies of the Republic of Lithuania;
- 4) to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the General Shareholder Meeting decides to withdraw this right for all the shareholders;
- 5) to leave all or a part of shares to one or several persons under a will;
- 6) to transfer all or a part of shares to the ownership of other persons, except in cases specified in the laws of the Republic of Lithuania;
- 7) other property rights established by laws and the Company's Articles of Association.

The Company's shareholders shall have the following non-property rights:

- 1) to attend the General Shareholder Meetings and vote;
- 2) to receive information on the Company specified in paragraph 1 of Article 18 of the Law on Companies of the Republic of Lithuania;
- 3) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Company Manager of his/her obligations prescribed by the Articles of Association of the Company and other laws as well as in other cases laid down by laws;
- 5) other non-property rights established by laws and the Company's Articles of Association.

### **13. Restrictions on disposal of securities**

There are no restrictions.

### **14. Shareholders**

As at 30 June 2008, the number of shareholders of Stumbras AB was 749

Shareholders holding more than 5 per cent of the Company's authorised share capital as at 30 June 2008 are as follows:

Full name of the shareholder (company name, type, official seat, code of the legal entities' register)	Number of shares owned by the shareholder (units)	Share in the authorised capital	Share of votes represented by shares owned	Share of votes conferred to the shareholder together with persons acting jointly
Mineraliniai Vandenys UAB J.Jasinskio g. 16, Vilnius, company code 121702328	37,320,311	93.30	93.30	93.30

### **15. Shareholders holding special control rights and descriptions of these rights**

There are no such shareholders.

### **16. All restrictions regarding voting rights**

There are no restrictions

### **17. All mutual agreements of shareholders of which the Issuer is aware and due to which restrictions on transfer of securities and/or voting rights may be imposed**

There are no such agreements



## 18. Employees

	30 June 2008	30 June 2007
<b>Number of employees</b>	305	333
Managers	7	7
Officials-specialists	64	61
Workers	234	265
	30 June 2008	30 June 2007
<b>Average gross remuneration</b>	3,292	3,022
Managers	21,013	13,230
Officials-specialists	5,394	5,348
Workers	2,187	2,217

## 19. Amendment procedure of the Issuer's Articles of Association

The Law on Companies of the Republic of Lithuania establishes that the General Shareholder Meeting shall be vested with an exclusive right to amend the Articles of Association.

The Company's Articles of Association stipulate that decision to amend Articles of Association is adopted by a 2/3 majority of the votes conferred by the shares of the shareholders present at the General Shareholder Meeting. Following the decision by the General Shareholder Meeting to amend the Company's Articles of Association, the full text of the amended Articles of Association shall be drawn up and signed by the person authorised by the General Shareholder Meeting

## 20. Issuer's bodies

The Company's Articles of Association stipulate that the Company shall have the following bodies: the General Shareholder Meeting, the Supervisory Board, the Board and the Company Manager.

Articles of Association provide that restrictions on rights of the members of the Company's bodies shall be determined by the Law on Companies of the Republic of Lithuania.

Articles of Association provide that the competence of the General Shareholder Meeting shall be defined by the Law on Companies.

The Supervisory Board is a collegial supervisory body of the Company. The Supervisory Board composed of 3 (three) members is elected by the General Shareholder Meeting for the term of 4 (four) years. The General Shareholder Meeting may remove from office the entire Supervisory Board or its individual members before the expiry of the term of their office.

The Board is a collegial management body of the Company. The Board composed of 6 (six) members is elected by the Supervisory Board for the term of 4 (four) years. The Supervisory Board may remove from office the entire Board or its individual members before the expiry of the term of their office.

The Articles of Association of the Company stipulate that the Board shall deal with major production, organisational, financial and economic issues, analyse and approve the operating strategy, the use of financial resources, approve the organisational and management structure of the Company, elect and remove the Company manager and shall fulfil other functions prescribed by the Law on Companies.

The Company Manager – the Chief Executive Office – is elected and removed under procedure prescribed by the Law on Companies. The competence of the Company Manager is defined by the Law on Companies. The Company Manager shall be responsible for the organisation of the Company's operations, implementation of it objectives, shall be entitled to enter into transactions at his own discretion, save in cases where the Law on Companies provides that there is a decision of the Board to enter into transactions. The Head of Administration shall follow decisions passed by the General Shareholder Meeting, the Supervisory Board and the Board.

## 21. Members of the collegial bodies, the Company Manager, the Chief Financier

Position of the person	Name, surname	Number of the Issuer's shares held	Commencement date	Termination date
<b><u>Supervisory Board</u></b>				
Chairman of the Supervisory Board	Romanas Raulynaitis	10,060	01/12/2007	01/12/2011
Member of the Supervisory Board	Inga Žemkauskienė	-	01/12/2007	01/12/2011
Member of the Supervisory Board	Dalius Balceris	-	01/12/2007	01/12/2011
<b><u>Board</u></b>				
Chairman of the Board	Darius Juozas Mockus	-	28/11/2007	28/11/2011
Member of the Board	Artūras Listavičius	-	28/11/2007	28/11/2011
Member of the Board	Rolandas Vingilis	-	28/11/2007	28/11/2011
Member of the Board	Raimondas Kurliauskis	-	28/11/2007	28/11/2011
Member of the Board	Česlovas Matulevičius	15,730	28/11/2007	28/11/2011
Member of the Board	Aurelijus Racevičius	5,650	28/11/2007	28/11/2011
<b><u>Head of Administration and the Financial Manager</u></b>				
Chief Executive Officer	Česlovas Matulevičius	15,730	01/09/2004	-
Financial Manager	Voldemaras Kallo	19,666	07/11/2003	-

## 22. Information about significant agreements

The Company has concluded no significant agreements in which the Company is a party to and which would come into effect, change or terminate as a result of the change in the control of the Company.

## 23. Information about the compliance with the Governance Code

Stumbras AB confirms its substantial compliance with the principles of the Governance Code approved by the Vilnius Stock Exchange (VSE) for the companies listed on the regulated market. There were no significant changes subsequent to the Company's report on the compliance with the Governance Code of companies listed on the VSE for the reporting period of six months of 2008 ending on 30 June 2008.

## 24. Information about transactions with related parties

The major shareholder of the Company is Mineraliniai Vandenys AB which holds 93.30 per cent of the Company's shares. The remaining amount of the Company's shares is held by different small shareholders. Subsidiaries of the Concern MG Baltic UAB are treated as other related parties. Negotiations with related parties regarding services are conducted on "a cost plus" basis. Products are sold based on a price list applicable to unrelated parties.

Results of transactions with related parties performed in the 1<sup>st</sup> half-year of 2008 are disclosed in the notes to the financial statements of Stumbras AB as at 30 June 2008.

## 25. Data on publicly announced information

In the period from 1 January 2008 to 30 June 2008, the Company publicly announced information on the website of OMX Client News Service and on the Company's website. In addition, the Company announced dates of General Shareholder Meetings in the daily *Respublika*. The Company's public communications are available on the website of VSE at <http://www.baltic.omxgroup.com/market/?pg=news> and on the Company's website at <http://www.stumbras.eu/investuotojams/>.

Česlovas Matulevičius  
General Director

25 August 2008