

AB Vilniaus Degtinė

Annual accounts for the year
ended 31 December 2007

Contents

Company details	2
Board's statement on the accounts	
Independent auditor's report to the shareholders of AB Vilniaus Degtinė	4
Balance sheet	6
Income statement	8
Statement of changes in shareholders' equity	9
Statement of cash flows	10
Notes	11
Annual report for the year ended 31 December 2007	44

Company details

AB Vilniaus Degtinė

Telephone: + 370 5 231 31 52
Telefax: + 370 5 231 50 52
Company code: 120057287
Registered at: Panerių str. 47/2, Vilnius, Lithuania

Management

Danas Kerbelis, General Director
Audra Jauniškienė, Finance and Administration Director

Board

Darius Žaromskis
Raimundas Čičirka
Danas Kerbelis
Audra Jauniškienė
Andrejus Galuška

Auditor

KPMG Baltics, UAB

Banks

Lithuanian branch of AS UniCredit Bank
AB SEB Bankas
AB Bankas Hansabankas

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, 22 February 2008

The Board:



Darius Žaromskis
(Chairman)



Raimundas Čičirka



Danas Kerbelis



Audra Jaušikienė



Andrejus Galuška

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 2007, the 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 6–43.

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 Vilnius Degtinė as at 31 December 2007, 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

In addition, we have read the annual report for the year ended 31 December 2007 set out on pages 44-83 and have not identified any material inconsistencies between the financial information for the year 2007 included in the annual report and the financial statements for the year ended 31 December 2007.

Vilnius, 22 February 2008
KPMG Baltics, UAB


Leif Rene Hansen
Partner


Ieva Voverienė
Certified Auditor

Balance sheet

In LTL	Notes	31/12/2007	31/12/2006
ASSETS			
Non-current assets			
Property, plant and equipment	14	19,956,913	18,822,194
Intangible assets	15	15,894,114	16,838,794
Other non-current assets		1,000	24,143
Total non-current assets		35,852,027	35,685,131
Current assets			
Inventories	16	12,205,381	6,994,649
Prepayments and future expenses	17	1,165,961	1,578,708
Trade receivables	18	37,842,407	28,082,669
Other receivables	19	995,688	207,815
Cash and cash equivalents	20	72,174	384,747
Total current assets		52,281,611	37,248,588
TOTAL ASSETS		88,133,638	72,933,719

The notes, set out on pages 11 to 43, are an integral part of these financial statements.

Balance sheet (cont'd)

In LTL	Notes	31/12/2007	31/12/2006
EQUITY AND LIABILITIES			
Equity			
Share capital	21	24,408,431	24,408,431
Legal reserve		2,440,843	2,440,843
Retained earnings		10,398,154	8,716,239
Total equity		37,247,428	35,565,513
Non-current liabilities			
Interest bearing loans and borrowings	23	7,660,037	11,064,498
Deferred tax liabilities	12	633,159	492,154
Total non-current liabilities		8,293,196	11,556,652
Current liabilities			
Interest bearing loans and borrowings	23	12,097,671	3,404,461
Trade payables		9,893,056	6,374,199
Income tax payable		0	259,481
Other liabilities	24	20,602,287	15,773,413
Total current liabilities		42,593,014	25,811,554
Total liabilities		50,886,210	37,368,206
TOTAL EQUITY AND LIABILITIES		88,133,638	72,933,719

The notes, set out on pages 11 to 43, are an integral part of these financial statements.

Income statement

For the year ended 31 December

In LTL	Notes	2007	2006
Revenue	5	67,794,757	61,349,196
Cost of sales		<u>(35,107,615)</u>	<u>(29,201,839)</u>
Gross profit		32,687,142	32,147,357
Other income	6	174,724	131,016
Sales and distribution expenses	7	(17,186,617)	(16,481,989)
Administrative expenses	8	(12,576,570)	(10,807,147)
Other expenses	6	<u>(33,346)</u>	<u>(41,840)</u>
Result from operating activities		3,065,333	4,947,397
Finance income	10	23,135	103,139
Finance expenses	10	<u>(1,043,969)</u>	<u>(817,189)</u>
Profit before tax		2,044,499	4,233,347
Corporate income tax	11	<u>(362,584)</u>	<u>(477,935)</u>
Profit for the year		1,681,915	3,755,412
Basic and diluted earnings per share	22	0.07	0.15

The notes, set out on pages 11 to 43, are an integral part of these financial statements.

Statement of changes in shareholders' equity

In LTL	Notes	<u>Share capital</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Capital and reserves as at 1 January 2006		24,408,431	2,440,843	4,960,827	31,810,101
Profit for 2006				3,755,412	3,755,412
Capital and reserves as at 31 December 2006, restated		24,408,431	2,440,843	8,716,239	35,565,513
Profit for the reporting period				1,681,915	1,681,915
Capital and reserves as at 31 December 2007	21	<u>24,408,431</u>	<u>2,440,843</u>	<u>10,398,154</u>	<u>37,247,428</u>

The notes, set out on pages 11 to 43, are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

In LTL	2007	2006
Profit for the year	1,681,915	3,755,412
Depreciation and amortisation	3,360,877	2,931,916
Impairment on construction in progress	2,762	181,020
Impairment of trade receivables and other receivables	(340,637)	(3,974,919)
Write-down of inventories	(13,062)	(111,377)
Net financial expenses	1,016,786	703,943
Gain (loss) on disposal of property, plant and equipment	(258)	(17,969)
Income tax expense	362,584	477,935
	6,070,967	3,945,961
Net cash flows from ordinary activities before changes in working capital		
Change in inventories	(5,197,670)	(1,732,395)
Change in prepayments	412,747	(1,403,476)
Change in trade receivables and other receivables	(9,524,984)	508,269
Change in trade payables and other liabilities	8,326,374	(1,754,631)
	(5,983,533)	(4,382,233)
Net cash flows from operating activities		
Income tax paid	(482,387)	(119,156)
Net cash flows from operating activities	(394,953)	(555,428)
Interest received	6,875	103,972
Proceeds from disposal of property, plant and equipment	1,187	24,448
Acquisition of property, plant and equipment	(3,452,550)	(3,161,169)
Acquisition of intangible non-current assets	(102,057)	(48,432)
Loans granted	(641,392)	
Net cash flows from investing activities	(4,187,937)	(3,081,181)
Repayment of loans	(3,404,461)	(2,928,837)
Loans received	8,693,210	
Financial lease payments		(35,348)
Interest paid	(1,018,432)	(797,427)
Net cash flows from financing activities	4,270,317	(3,761,612)
Net cash flows from operating, investing and financing activities	(312,573)	(7,398,221)
Cash and cash equivalents in the beginning of the period	384,747	7,782,968
Cash and cash equivalents at the end of the period	72,174	384,747

The notes, set out on pages 11 to 43, are an integral part of these financial statements.

Notes

1 Reporting entity

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

AB Vilniaus Degtinė is a Lithuanian public listed company with shares traded on Vilnius Stock Exchange. Shares of the Company are held by the following shareholders:

Shareholder	Number of shares	Par value per share, in LTL	Total value in LTL
Sobieski Sp.z.o.o.	16,668,632	1	16,668,632
Darius Žaromskis	2,440,843	1	2,440,843
Arūnas Tuma	2,440,843	1	2,440,843
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 and trade in alcoholic beverages: vodkas, bitters, liqueurs and other alcoholic beverages. The facilities for alcoholic beverage production are located in Vilnius; however, the spirit production facilities are located in the branch of the Company in Obeliai.

The Company has major sales in the local market. Although sales to the European Union and foreign markets are constantly increasing, their weight in the total sales volume is not significant.

AB Vilniaus Degtinė employed 256 staff members as at 31 December 2007 (245 staff members as at 31 December 2006).

2 Summary of significant accounting principles

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 annual report for issue on 22 February 2008 and signed the financial statements on behalf of the Company.

Notes

2 Summary of significant accounting principles (cont'd)

Basis of preparation

The financial statements are presented in the national currency - Litas, which is the functional currency of the Company. They are prepared on the historical cost basis.

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 of 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 the 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 and coincide with those used in the previous year.

Foreign currency

Translation of amounts in foreign currencies into the national currency

Transactions in foreign currencies are translated into Litas 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

2 Summary of significant accounting principles (cont'd)

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade payables and other liabilities.

Cash and cash equivalents comprise cash balances and call deposits.

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.

Financial instruments are recognized on the day of the transaction. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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

Loans and borrowings and other financial liabilities are stated at amortised cost using the effective interest rate method basis. Short-term liabilities are not discounted.

Derivative financial instruments

The Company did not use derivative financial instruments during the year ended 31 December 2007 and did not hold any derivative financial instruments as at reporting date.

Property, plant and equipment

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use until the date of its operation, and the costs of dismantling and removing the items and restoring the site on which they are located.

Notes

2 Summary of significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

Recognition and measurement (cont'd)

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.

Subsequent costs

After the initial recognition, the costs incurred in replacing a part of property, plant and equipment or related to the reconstruction of such asset, are capitalised only if it is probable that future economic benefits embodied with the item will flow to the Company and the cost of an item can be measured reliably. All other costs are recognised in the income statement 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
- Vehicles 4–10 years
- Other assets 5–15 years

Depreciation methods, residual values and useful lives of the assets are reviewed at each reporting date.

Notes

2 Summary of significant accounting principles (cont'd)

Non-current intangible assets

Intangible assets that have a finite useful life and include computer software, other licences and trademarks 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 over the estimated useful lives. The estimated useful life of the intangible assets can be specified as follows:

- Software and licences 3 years
- Sobieski trademark 20 years

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is written-off when incurred.

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 depreciation and impairment losses. All other leases are classified as operating leases.

Inventories

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

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 operating capacity.

Notes

2 Summary of significant accounting principles (cont'd)

Inventories (cont'd)

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 inventory, since the Company does not expect the bottles to be reused following the initial sale. Bottles are included in the cost of finished goods when used in production.

The Company books multiple usage tare, which includes plastic crates for placing the bottles of alcoholic beverages, to operating expenses immediately after they are taken for use.

Impairment

A financial asset is impaired if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset the impairment of which is tested on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that are tested for impairment on a portfolio basis.

The carrying amounts of the Company's non-financial assets other than inventories and deferred income tax asset are reviewed at each reporting 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised 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 short duration are not discounted.

Notes

2 Summary of significant accounting principles (cont'd)

Impairment (cont'd)

Calculation of recoverable amount (cont'd)

The recoverable amount of non-financial 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.

Reversals of impairment

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

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. 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 recognised.

Dividends

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

Employee benefits

The Company does not have any adopted defined contribution and benefit plans and has no share based payment schemes. Post employment obligations to employees retired on a pension are borne by the State.

Provisions

Provisions are recognised in the balance sheet when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from a past event.

Revenue

Sales of goods

Revenue from the sale of goods is recognised in the income statement when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company 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.

Notes

2 Summary of significant accounting principles (cont'd)

Revenue (cont'd)

Services rendered, assets disposed

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

Lease revenue is recognised in the income statement on a straight-line basis over the term of the respective lease.

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

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or return of assets disposed is possible or when the significant risks and rewards of ownership cannot be regarded as transferred to the buyer.

Expenses

Operating lease payments

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

Finance lease payments

Minimum lease payments are apportioned between finance expenses and the reduction of the outstanding liability using the effective interest rate method. The finance expenses are distributed over the whole period of the finance lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Net financing costs

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

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

Notes

2 Summary of significant accounting principles (cont'd)

Income tax

Income tax consists of current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current income 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. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets is recognised only to the extent it is probable that the future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Segment reporting

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 the ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects off all dilutive potential ordinary shares. During the reporting period there were no dilutive potential ordinary shares issued by the Company.

Notes

2 Summary of significant accounting principles (cont'd)

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

New standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 Share-based Payment (effective from 1 January 2009). The revised Standard will clarify the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The revised IFRS 2 is not relevant to the Company's operations as the Company does not have any share-based compensation plans.
- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. Revised IFRS 3 is not relevant to the company as the Company does not have any interests in subsidiaries.
- 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 revised Standard.
- The revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Company has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The revised IAS 27 is not relevant to the Company's operations as the Company does not have any interests in subsidiaries.

Notes

2 Summary of significant accounting principles (cont'd)

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

- IFRIC 11 IFRS 2 – Group 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 as the Company has not entered into any service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Company does not expect the Interpretation to have any impact on the financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (hereinafter MFR) and their interactions (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses:
 - 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
 - 2) how a MFR might affect the availability of reductions in future contributions; and
 - 3) when a MFR might give rise to a liability.No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Company has not yet completed its analysis of the impact of the new interpretation.

Notes

3 Significant accounting estimates and judgements

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events.

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

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether impairment loss should be recorded in the income statement, the Company makes judgements 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, national or local economic conditions that influence the group of the receivables.

The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit risk. 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.

Impairment losses on construction in progress

Construction in progress is related to the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. The construction in progress is tested for impairment on the quarterly basis and based on the management estimates the impairment loss is recognised for it.

Impairment losses on a trademark

The Company uses a trademark Sobieski, which is amortised on a straight line basis over a period of 20 years. The service life of this trademark can differ from currently used accounting estimates due to the possible changes of the life cycle of the products market by this trademark as a result of market conditions. According to the management, considering the current situation, the service life used in the accounting is justifiable.

Notes

4 Adjustments of the previous periods

As at 31 December 2007, deferred income tax asset is netted with deferred income tax liabilities. Accordingly, the comparatives in the financial statements were adjusted, and thus, as at 31 December 2006, deferred tax asset was equal to 0 Litas and the deferred tax liability decreased by 399,309 Litas. As a result of adjusted comparatives, as at 31 December 2006, the total assets of the Company decreased by 399,309 Litas – to the amount of 72,933,719 Litas.

Notes

5 Segment reporting

The Company is primarily involved in the production and trade in alcoholic beverages. Besides, the Company produces and distributes rectified, methylated alcohol, has other income. Considering the share of the sales of these products in total income, only one segment can be distinguished in the Company's activities - production of alcoholic drinks and related products.

The structure of revenues and gross profit for 2007 can be specified as follows:

In LTL	Alcoholic beverages	Rectified alcohol	Methylated alcohol	Not allocated	Total
Revenue	63,815,679	1,812,147	113,223	2,053,708	67,794,757
Gross profit	31,734,154	358,401	46,374	548,213	32,687,142

The structure of revenues and gross profit for 2006 can be specified as follows:

In LTL	Alcoholic beverages	Rectified alcohol	Methylated alcohol	Total
Revenue	60,215,392	1,026,595	107,209	61,349,196
Gross profit	31,810,776	290,013	46,568	32,147,357

Substantially all operations of the Company are concentrated in the local market; however, minor part of the production is exported. In 2007, sales in foreign markets amounted to 1,303,529 Litass (685,507 Litass in 2006). Considering the share of the sales in the foreign markets in the total income, no geographical segments can be distinguished in the Company's activities.

Notes

In LTL	2007	2006
6 Other income and expenses		
Lease of premises	90,463	71,761
Profit from sales of materials and spare parts	45,836	0
Gain on sales of non-current assets	369	19,767
Other income	38,056	39,488
Total other income	174,724	131,016
Other expenses	33,346	12,309
Loss on sales of materials and spare parts	0	29,531
Total other expenses	33,346	41,840
Other income and expenses	141,378	89,176
In LTL	2007	2006
7 Sales and distribution expenses		
Advertising expenses	9,446,608	8,229,401
Marketing expenses	5,188,286	6,611,514
Salaries and social security	999,948	730,406
Transportation expenses	743,144	582,607
Market research expenses	366,401	146,442
Packaging expenses	121,699	102,798
Other	320,531	78,821
Total sales and distribution expenses	17,186,617	16,481,989

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

Notes

In LTL	2007	2006
8 Administrative expenses		
Salaries and social security	4,784,948	4,097,265
Operating and other taxes	1,594,134	930,159
Repairs and maintenance	1,212,640	1,343,471
Amortisation	1,046,737	1,053,277
Depreciation	774,942	594,824
Consulting and training expenses	614,609	468,225
Maintenance of cargo vehicles	373,738	272,332
Security expenses	290,288	259,276
Representation expenses	228,072	128,690
Sponsorship and other	170,786	264,011
Communications and IT maintenance expenses	161,286	171,890
Utilities	154,967	166,189
Impairment of construction in progress	2,762	181,020
Impairment of inventories	(13,062)	(111,377)
Other	1,179,723	987,895
Total administrative expenses	12,576,570	10,807,147

In LTL	2007	2006
9 Personnel expenses		
Wages and salaries	6,532,220	5,460,510
Social security contributions	2,053,141	1,704,273
Total personnel expenses	8,585,361	7,164,783

Personnel expenses for 2007 include wages and salaries for the management in the amount of 602,055 Litas (2006: 401,748 Litas).

As at 31 December 2007, interest-free loans issued to management amounted to 30,000 Litas. (No loans were granted to the management as at 31 December 2006).

In 2007, 256 employees were employed in the Company (in 2006 - 245 employees).

Notes

In LTL	2007	2006
10 Finance income and expense		
Interest income	23,004	103,139
Other income	131	0
Total finance income	23,135	103,139
Interest on loans and finance leases	1,039,790	807,083
Foreign exchange loss	3,580	10,106
Other	599	
Total finance expense	1,043,969	817,189
Finance income and expense, net	(1,020,834)	(714,050)

In LTL	2007	2006
11 Income tax expense		
Current tax	221,579	356,727
Change in deferred income tax	141,005	121,208
Total income tax expense	362,584	477,935

The reconciliation of the effective tax rate is as follows:

In LTL	2007		2006	
Profit before tax		2 044 499		4 233 347
Income tax using the effective tax rate	18.0%	368,010	19.0%	804,336
Charity expenses – double deductibility	(1.0%)	(19,887)	(1.0%)	(44,042)
Non-deductible representation expenses	0.5%	9,983	0.2%	6,891
Non-deductible value added tax	0.3%	7,131	0.2%	6,912
Written-off multiple usage tare	0	0	(6.7%)	(281,608)
Other non-deductible expenses	1.2%	23,752	0.4%	17,178
Effect of change in tax rate	(1.3)%	(26,405)	(0.7)%	(31,732)
	17.7%	362,584	11.3%	477,935

Notes

12 Deferred tax

	2007		2006	
	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
In LTL				
Impairment of other receivables	885,209	132,781	885,209	132,781
Impairment of trade receivables	731,782	109,767	1,072,419	160,863
Impairment of construction in progress	545,822	81,873	543,060	81,459
Impairment of inventories	0	0	9,972	1,496
Accrued social security expenses for vacation reserve	174,824	26,224	151,400	22,710
Total deferred tax asset		<u>350,645</u>		<u>399,309</u>
Difference in depreciation of property, plant and equipment	(3,380,557)	(507,083)	(3,552,285)	(532,843)
Difference in depreciation of intangible assets	(2,182,347)	(327,352)	(1,091,173)	(163,676)
Carrying value of non-current assets that are subject to investment relief	(995,792)	(149,369)	(1,299,630)	(194,944)
Total deferred tax liability		<u>(983,804)</u>		<u>(891,463)</u>
Net deferred tax		<u>(633,159)</u>		<u>(492,154)</u>

The current profit tax rate for 2007 is 15% (2006: 15%). According to the amended Lithuanian tax legislation, for taxable periods from 1 January 2006 to 31 December 2007, company profits subject to corporate income tax was increased by an additional social tax at a rate of 4% for 2006 and 3% for 2007, resulting in an effective rate of company profit income tax of 18% (2006: 19%).

The movement in deferred income tax is as follows:

In LTL	2007	2006
Deferred income tax liability as at 1 January	(492,154)	(370,946)
Change in deferred income tax	(141,005)	(121,208)
Deferred income tax liability as at 31 December	<u>(633,159)</u>	<u>(492,154)</u>

13 Income tax

In LTL	2007	2006
Overpaid income tax (liability) as at 1 January	(259,481)	(21,910)
Income tax for the period	(221,579)	(356,727)
Income tax paid	482,387	119,156
Overpaid income tax (liability) as at 31 December	<u>1,327</u>	<u>(259,481)</u>

Notes

14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construction in progress	Other property, plant and equipment	Total
Cost as 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		(20,662)	0
Cost as 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 as 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	0	0	0	0	181,020	0	181,020
Disposals	(139,550)	(105,210)	(315,394)	(122,870)	0	0	(683,024)
Accumulated depreciation as at 31 December 2006	5,898,769	8,901,575	654,852	1,704,832	543,060	0	17,703,088
Net book value as at 31 December 2006	8,838,830	5,424,852	552,757	682,380	3,092,361	131,014	18,822,194
Cost as at 1 January 2007	14,837,599	14,326,427	1,207,609	2,387,212	3,635,421	131,014	36,525,282
Additions	347,415	1,552,464	428,980	191,814	401,357	530,520	3,452,550
Disposals	(700)	(195,383)	(5,500)	(162,046)	0	0	(363,629)
Reclassifications	1,175,505	75,441	0	5,000	(1,124,932)	(131,014)	0
Cost as at 31 December 2007	16,359,819	15,758,949	1,631,089	2,421,980	2,911,846	530,520	39,614,203
Accumulated depreciation as at 1 January 2007	5,898,769	8,901,575	654,852	1,704,832	543,060	0	17,703,088
Depreciation for the year	610,220	1,308,182	140,348	255,390	0	0	2,314,140
Impairment loss	0	0	0	0	2,762	0	2,762
Disposals	(699)	(195,352)	(4,683)	(161,966)	0	0	(362,700)
Accumulated depreciation as at 31 December 2007	6,508,290	10,014,405	790,517	1,798,256	545,822	0	19,657,290
Net book value as at 31 December 2007	9,851,529	5,744,544	840,572	623,724	2,366,024	530,520	19,956,913

Notes

14 Property, plant and equipment (cont'd)

Construction in progress is related to the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. The construction in progress is tested for impairment on the quarterly basis and based on the management estimates the impairment loss is recognised for it.

The depreciation was distributed as follows:

In LTL	2007	2006
Cost of sales	1,428,598	1,193,172
Inventories	86,231	84,527
Administrative and other expenses	799,311	600,940
Total	2,314,140	1,878,639

Notes

15 Non-current intangible assets

In LTL	Sobieski trademark	Software	Patents, licenses	Total
Cost as at 1 January 2006	18,913,672	532,562	236,875	19,683,109
Additions during the year	0	48,433	0	48,433
Disposals	0	(133,106)	(22,360)	(155,466)
Cost as at 31 December 2006	18,913,672	447,889	214,515	19,576,076
Accumulated amortisation as at 1 January 2006	1,260,911	379,356	199,204	1,839,471
Amortisation for the year	945,684	89,669	17,924	1,053,277
Disposals	0	(133,106)	(22,360)	(155,466)
Accumulated amortisation as at 31 December 2006	2,206,595	335,919	194,768	2,737,282
Net book value as at 31 December 2006	16,707,077	111,970	19,747	16,838,794
Cost as at 1 January 2007	18,913,672	447,889	214,515	19,576,076
Additions during the year	0	102,057	0	102,057
Disposals	0	(20,997)	(12,131)	(33,128)
Cost as at 31 December 2007	18,913,672	528,949	202,384	19,645,005
Accumulated amortisation as at 1 January 2007	2,206,595	335,919	194,768	2,737,282
Amortisation for the year	945,684	86,830	14,223	1,046,737
Disposals	0	(20,997)	(12,131)	(33,128)
Accumulated amortisation as at 31 December 2007	3,152,279	401,752	196,860	3,750,891
Net book value as at 31 December 2007	15,761,393	127,197	5,524	15,894,114

All amortisation expenses are included under operating expenses.

Notes

In LTL	2007	2006
16 Inventories		
Raw materials	10,827,494	5,921,416
Finished goods	869,364	969,727
Goods for resale	467,415	55,583
Work in progress	41,108	47,923
Total inventories after write-down allowance	12,205,381	6,994,649

There was no any write-down allowance for slow moving inventories as at 31 December 2007 (write-down allowance amounted to 13,062 Litas as at 31 December 2006).

In LTL	2007	2006
17 Prepayments and deferred expenses		
Prepayments to suppliers	574,745	756,840
Deferred advertising expenses	457,623	657,880
Deferred insurance and subscriptions	105,797	163,988
Other	27,796	0
Total prepayments and deferred expenses	1,165,961	1,578,708

In LTL	2007	2006
18 Trade receivables		
Trade receivables	38,574,189	29,155,088
Impairment allowance for bad debts	(731,782)	(1,072,419)
Net trade receivables	37,842,407	28,082,669

Notes

18 Trade receivables (cont'd)

Impairment of receivables for bad debts in 2007 and 2006 decreased when the Company has written-off bad debts. The change in impairment of receivables can be presented as follows:

In LTL	2007	2006
Impairment allowance for bad debts as at 1 January	(1,072,419)	(1,418,178)
Write-off of allowance for trade receivables	340,637	345,759
Impairment allowance for bad debts as at 31 December	(731,782)	(1,072,419)

In LTL	2007	2006
19 Other receivables		
Loans granted	730,375	13,636
Prepayments to Tax Inspectorate	248,807	172,481
Other receivables	16,506	21,698
Doubtful receivables	885,209	885,209
Total other receivables before write-down allowance	1,880,897	1,093,024
Write-down allowance	(885,209)	(885,209)
Total other receivables, net	995,688	207,815

The prepayment to the Tax Inspectorate is a guarantee for payment of excise tax on exported products. Loans granted: loan of 185,760 EUR (641,392 Litas) to two related companies (5.5% fixed annual interest rate, maturity of the loans granted – December 2008) and interest-free loan of 88,983 Litas to the employees of the Company.

Change in impairment allowance of receivables was as follows:

In LTL	2007	2006
Impairment allowance for bad debts and other receivables as at 1 January	(885,209)	(4,515,209)
Reverse of impairment allowance for bad debts	0	3,630,000
Impairment allowance for bad debts and other receivables as at 31 December	(885,209)	(885,209)

Notes

In LTL	2007	2006
20 Cash and cash equivalents		
Cash at bank and in hand	72,174	384,747
Total cash and cash equivalents	72,174	384,747

Cash in the bank (1,148 Lit as at 31 December 2007 and 350,395 Lit as at 31 December 2006) and current and futures cash inflows to the bank accounts are pledged to secure the repayment of bank loans (Note 27).

21 Capital and reserves

Share capital

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

Legal reserve

The legal reserve is compulsory reserve under the Lithuanian legislation. Annual contributions of at least 5% of the retained earnings available for distribution are required until the legal reserve reaches 10% of the share capital. The reserve can not be distributed.

Notes

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.

	<u>2007</u>	<u>2006</u>
Average number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	<u>1,681,915</u>	<u>3,755,412</u>
Earnings per share, in LTL	<u>0.07</u>	<u>0.15</u>

The Company has not issued any other securities potentially convertible into shares. Therefore, the diluted earnings per share are the same as the basic earnings per share.

	<u>2007</u>	<u>2006</u>
In LTL		
23 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	<u>7,660,037</u>	<u>11,064,498</u>
Total non-current liabilities	<u>7,660,037</u>	<u>11,064,498</u>
Current liabilities		
Overdraft	8,693,210	0
Bank loans	<u>3,404,461</u>	<u>3,404,461</u>
Total current liabilities	<u>12,097,671</u>	<u>3,404,461</u>
Total	<u>19,757,708</u>	<u>14,468,959</u>

Notes

23 Interest bearing loans and borrowings (cont'd)

Terms and repayment schedule:

In LTL	Total	Up to 1 year	1-2 years	2-5 years
Overdraft of LTL 9,000,000 – variable 1 month's Vilibrator + 1.15%	8,693,210	8,693,210	0	0
Loan of EUR 4,930,000 (LTL 17,022,304) – variable 3 months' EURIBOR + 1.45%	11,064,498	3,404,461	3,404,461	4,255,576
Total financial liabilities	19,757,708	12,097,671	3,404,461	4,255,576

The effective annual interest rates of the loan and overdraft of the Company as at 31 December 2007 were 6.4% and 8.1%, respectively. The interest rate of financial liabilities has been established on the basis of the market interest rates; therefore, the carrying amount of the loans is the same as their fair value.

In order to secure the bank loans obtained, the Company has pledged property, plant and equipment and intangible assets, inventories, cash and cash inflows and trade receivables. For further comments refer to Note 27.

In LTL	2007	2006
24 Other payables		
Excise tax payable	14,866,664	11,243,599
VAT payable	4,143,887	3,208,273
Vacation reserve and social insurance	736,586	640,103
Accrued expenses	95,022	118,291
Taxes payable	34,377	235,679
Other payables	725,751	327,468
Total other payables	20,602,287	15,773,413

Notes

25 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these annual accounts.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company controls credit risk by using credit conditions and procedures of market analysis. The Company has no significant credit risk concentration because sales are distributed among different buyers.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains 9 000 000 Litass overdraft facility.

Notes

25 Financial risk management (cont'd)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company's borrowings are subject to variable interest rates related to EURIBOR and VILIBOR. As at 31 December 2007, the Company did not use any financial instruments to hedge its exposure to the cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rates.

A change in average annual interest rate for the Company's borrowings by 1 percentage point would have increased (decreased) the interest expenses and the profit for the year ended 31 December 2007 by approximately 170 thousand Lit.

Currency risk

The functional currency of the Company is Lit (LTL). The Company faces foreign currency risk on purchases and borrowings that are denominated in currencies other than Lit and EUR. The risk related to transactions in EUR is considered to be insignificant as the Lithuanian Lit is pegged to EUR at a fixed rate. The Company does not have any material exposure to other foreign currencies as at 31 December 2006 and 31 December 2007.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and proposes the level of dividends to ordinary shareholders based on the Company's financial results and strategic plans.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

There were no changes in the Company's approach to capital management during the year.

Notes

26 Related party transactions

Related parties of the Company are:

- parties that control, are controlled by or are under common control with the Company;
- parties that can have material impact on the activities of the Company;
- parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- companies that are under control or material impact of the aforesaid persons.

Parent and ultimate parent companies are as follows:

<u>Company</u>	<u>Relationship</u>
Sobieski Sp. Z.o.o.	Parent company
Belvedere S.A.	Ultimate parent company

Other main related parties are:

<u>Company</u>	<u>Relationship</u>
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
Gemaco	Belvedere group company
I CH PTUP Vuador	Belvedere group company
I000 Galiart Belvedere S.A.	Belvedere group company
PHP Wieslav Wawrzyniak	Belvedere group company
Chais Beaucairois SAS	Belvedere group company
Darius Žaromskis	Shareholder
Arūnas Tuma	Shareholder

Notes

26 Related party transactions (cont'd)

Sales to and purchases from related parties during the reporting periods ended 31 December 2007 are as follows:

Company	Type of transaction	2007	2006
Purchases from:			
Belvedere group companies	Purchase of services	4,429,847	6,651,193
Belvedere group companies	Purchase of raw materials	2,392,264	4,554,253
Shareholder	Purchase of services	219,600	189,600
Belvedere group companies	Purchase of non-current assets	120,123	0
Parent company	Purchase of inventories	0	345
Total purchases		<u>7,161,834</u>	<u>11,395,391</u>
Sales to:			
Belvedere group companies	Sales of production including excise tax	118,298,817	114,908,857
Parent company	Sales of production including excise tax	332,596	402,899
Parent company	Other income	203,117	0
Ultimate parent company	Sales of production including excise tax	73,676	0
Belvedere group companies	Sales of services	72,425	71,646
Total sales		<u>118,980,631</u>	<u>115,383,402</u>
Excise tax		<u>78,837,415</u>	<u>78,218,997</u>
Total sales net of excise tax		40,143,216	37,164,405

Notes

26 Related party transactions (cont'd)

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

Company	2007	2006
Trade receivables		
From Belvedere group companies	17,427,768	14,337,477
From ultimate parent company	73,676	0
From parent company	53,947	185,635
Total trade receivables	17,555,391	14,523,112
Trade payables		
To Belvedere group companies	976,503	1,797,661
Total trade payables	976,503	1,797,661

Remuneration to the Company's management is enclosed in Note 9 to the financial statements.

All outstanding related party transactions are priced on an arm's length basis.

Notes

27 Off-balance and other liabilities

As security for the loan and overdraft facilities obtained, the following assets have been pledged by the Company:

In LTL	2007	2006
Carrying amount of pledged trademarks	15,761,394	16,707,077
Carrying amount of pledged inventories	12,205,380	6,994,649
Carrying amount of pledged buildings and structures	8,585,436	10,598,013
Cash pledged to the bank	1,148	350,395
Carrying amount of pledged machinery and equipment	0	1,997,164

In addition, the Company has pledged its cash inflows to the accounts with the bank that issued the loans and overdraft.

In addition, on 31 December 2007, the Company pledged trade receivables, which amounted to 22,124,836 Litas as at 31 December 2007 (19,736,294 Litas as at 31 December 2006).

In connection with the credit liabilities to the bank, the Company has certain loan covenants in place. During the term of the loan contract, the ratio of shareholders' equity and assets recorded in the balance sheet must be at least 50 per cent. The Debt Service Cover ratio must be no greater than 120 per cent. As at 31 December 2007, these ratios were 42.3 and 141.4 per cent, respectively. The shareholders' equity and assets ratio deviated from the covenant mostly because of an increase in inventories and trade receivables. The Government announced an increase in excise tax on alcoholic drinks effective as of 1 January 2008, and as a result, sales volumes grew significantly in December, at the same time increasing trade receivables and additional demand for raw materials. The Company's management is confident that this loan covenant non-compliance is temporary, explainable and will be rectified in the near future and that loan facilities will not be withdrawn in the short term.

On 28 September 2007 the Company issued a commitment to the Tax Inspectorate to execute tax liabilities arising in relation to the storage and transportation of goods subject to excise tax. The commitment amounts to 7,950,000 Litas and is valid until 30 September 2008.

28 Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on 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.

Notes

28 Fair value of financial instruments (cont'd)

The fair value of the assets and liabilities reported in the balance sheet as at 31 December 2007 do not differ significantly from their carrying amounts except for immovable property, plant and equipment whose amortised cost differs significantly from its fair value.

Financial assets as at 31 December 2007:

In LTL	Carrying amount	Fair value
Prepayments and future expenses	1,165,961	1,165,961
Trade receivables	37,842,407	37,842,407
Other receivables	995,688	995,688
Cash and cash equivalents	72,174	72,174
Total	40,076,230	40,076,230

Financial liabilities as at 31 December 2007:

In LTL	Carrying amount	Fair value
Interest bearing loans and borrowings	19,757,708	19,757,708
Trade payables	9,893,056	9,893,056
Other liabilities	20,602,287	20,602,287
Total	50,253,051	50,253,051

Annual report for the year ended 31 December 2007

1. INFORMATION ABOUT THE COMPANY

Company name	Joint stock company Vilniaus Degtinė, hereinafter referred to as AB Vilniaus Degtinė
Legal status	Joint stock company
Date and place of registration	8 May 1995, at the Register Service of Vilnius City Board
Code	120057287
Company address	Panerių str. 47/2, LT-03202 Vilnius
Telephone	(8~5) 233 0819
Fax	(8~5) 231 5052
E-mail	vd@degtine.lt
Website	www.degtine.lt

AB Vilniaus Degtinė produces and sells vodkas and liqueurs, other alcoholic drinks, rectified, methylated grain ethyl alcohol, produces distilled grain ethyl alcohol, imports and sells alcoholic products from the other countries.

The structure of the authorised capital of AB Vilniaus Degtinė is as follows:

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

The ordinary registered shares that form the authorised capital of the Company grant equal rights to their holders. All the shares of AB Vilniaus Degtinė are fully paid in. The Company has not issued any debt securities or derivatives, which could be converted into shares.

The total number of shareholders as at 31 December 2007 was 245.

Shareholders, which held (by the ownership right) more than 5 per cent of the authorised capital of the Company as at 31 December 2007:

Shareholder's name, surname (company name, legal status, company code, company address)	Number of the shares the shareholder holds by the ownership right	Portion of the authorised capital held, %	Portion of votes held, %
SOBIESKI SP.Z.0.0. ul. Bellottiego 1, 01-022, Warszawa, Poland 230030460	16,668,632	68	68
ARŪNAS TUMA	2,440,843	10	10
DARIUS ŽAROMSKIS	2,440,843	10	10
SKANDINAVISKA ENSKILDA BANKEN CLIENTS Sergels Torg 2, 10640 Stockholm, Sweden 50203290810	2,286,750	9	9

None of the Company's shareholders have any special rights of control. There are no restrictions of the rights to vote.

Since 25 March 2002, the ordinary registered shares of AB Vilniaus Degtinė are included in the secondary trade list of Vilnius Stock Exchange. The Company has signed a contract with AB FMĮ Finasta regarding the accounting of the securities issued by the Company.

The Company organises the General Shareholders' Meeting, has collegial supervisory body – the Supervisory Council, collegial management body – the Board and one-person management body – the Head of the Company (General Director).

The Supervisory Council of the Company consists of 3 members. It is elected by the General Shareholders' Meeting for a period of four years. If individual members of the Supervisory Council must be elected, they are elected only for the period before the end of the term of the current Supervisory Council.

The Board of the Company consists of 5 members. It is elected by the Supervisory Council for a term of four years. The Supervisory Council can recall the Board in corpora or individual members before the end of the term. A member of the Board may resign from the duties before the end of the term by notifying the Company about it in writing at least 14 days in advance.

The Head of the Company (General Director) is elected and recalled or dismissed from his/her duties, his/her salary is determined, job regulations are approved, incentives are awarded and penalties are imposed by the Board of the Company.

The Head of the Company acts on behalf of the Company in the Company's relations with other persons.

In 2007, the Company had 14 Board meetings, 5 Supervisory Council meetings and 1 shareholders' meeting where issues of importance to the Company were discussed.

Members of the collegial bodies, Head of the Company and Finance Director of AB Vilniaus Degtinė (31 December 2007):

Name, surname	Position	Participation in the authorised capital of the issuer, percent	Term
Dariusz Jamiola	Chairman of the Supervisory Council	-	29/04/2004 – 2008
Tomasz Kowalski	Member of the Supervisory Council	-	29/04/2004 – 2008
Ilona Šerlatienė	Member of the Supervisory Council	-	17/04/2007 – 2008
Darius Žaromskis	Chairman of the Board	10	12/2007 – 2011
Danas Kerbelis	Board member	-	12/2007 – 2011
Andrėjus Galuška	Board member	-	12/2007 – 2011
Raimundas Čičirka	Board member	-	12/2007 – 2011
Audra Jauniškienė	Board member	-	12/2007 – 2011
Danas Kerbelis	General Director	-	18/07/2005
Audra Jauniškienė	Director for Finance and Administration	-	01/03/2005

Detailed information about the management of the Company and disclosure of information is presented in the annex to the annual report *Report of AB Vilniaus Degtinė on the compliance with the Corporate Governance Code for the Companies Listed on Vilnius Stock Exchange*.

AB Vilniaus Degtinė belongs to the following associated structures:

- *Lithuanian Association of Chambers of Trade, Industry and Crafts*;
- Association *Lithuanian Food Industry*;
- Association of the companies trading in alcoholic drinks.

2. ANALYSIS OF PRODUCTION ACTIVITIES

Main activities of the Company are production of vodka, bitters, sweet bitters, liqueur and other alcoholic drinks.

In 2007, five new products were developed and launched: vodkas *Sobieski Superior*, *Sobieski su avietėmis* (Sobieski with raspberries), *Užpiltinių degtinė*, bitter *Trejų devynerių ekstraktas* (The Extract of Three Nines) and brandy *Old Vilnius*. In order to improve the quality, the recipes of another four products were modified.

Production of flavoured vodkas is further developed – these products are rather popular. However, the main attention is focused on the production of traditional vodka.

Last year, vodka *Sobieski Superior* and balsam *Karvedys* by AB Vilniaus Degtinė were awarded the gold medal as the Product of the Year 2007 by Lithuanian Confederation of Industrialists.

Production volumes in 2005-2007:

Products	2007			2006			2005		
	thous. litres	share, %	product range	thous. litres	share, %	product range	thous. litres	share, %	product range
Vodka	6,968.9	66.49	20	5,877.8	53.98	19	4,600.6	61.86	20
Flavoured vodka	2,310.3	22.04	8	3,870.2	35.54	5	1,433.6	19.28	3
Bitters	784.0	7.48	11	890.5	8.18	10	1,204.6	16.20	10
Gin	42.6	0.41	1	27.9	0.25	1	29.6	0.40	1
Liqueurs	243.5	2.32	5	218	2.00	5	165.5	2.23	5
Scottish Whisky	1.5	0.01	1	5.2	0.05	1	2.5	0.03	1
Brandy	130.1	1.25	1	-			-		
Total	10,480.9	100.00	41	10,889.6	100.00	41	7,436.4	100.00	40
Distilled ethyl alcohol	4,752.7	-	1	3,296.6	-	1	2,839.7	-	1
Rectified ethyl alcohol	4,310.9	-	1	4,011.4	-	1	2,844.2	-	1
Methylated ethyl alcohol	55.4	-	1	55.3	-	1	66.7	-	1
Aldehydes	274.9	-	1	250.1	-	1	184.6	-	1

Obelių Spirit Distillery, a branch of AB Vilniaus Degtinė, produces distilled ethyl alcohol from rye. The produced stock of ethyl alcohol is supplied to AB Vilniaus Degtinė for rectification and further processing.

In 2007, Obelių Spirit Distillery of AB Vilniaus Degtinė produced 4.75 m LPA or by 44 per cent more compared to the year 2006. Improvement of the existing production technology and more efficient use of the equipment served to increase the production volumes without major investments. This enabled to reduce energy and fuel (fuel oil, shale-oil) consumption per production unit. However, due to the significantly increased market prices of the main raw materials (rye), the production cost of distilled ethyl alcohol increased.

In 2007, Obelių Spirit Distillery was closed for one month (in July) because of the necessary current repairs of the equipment.

In 2007, investments were made in modernisation of production process, upgrading of machinery and equipment, improvement of working conditions, training of employees and other. This enabled to expand the range of products, launch new products, ensure and maintain appropriate quality of products and reduce production costs.

Main investments in 2007 were as follows:

- label gluing machine with additional equipment was installed;
- new transporter for connecting two lines was installed;
- bottle line was modernised by adjusting it for 1.0 litre *Sobieski* bottles;
- new equipment for flat 0.2 l *Sobieski* bottles was installed;
- bottling line for souvenir bottles was installed;
- new bottle-labelling machine was purchased;
- new caramel boiling equipment was installed;
- four new pumps were installed;
- new electric transporters and trolleys were purchased;
- the system for secondary use of the heat accumulated in the columns of the rectification shop was installed;
- new vehicle for spirit delivery was purchased;
- additional spirit reservoirs were installed;
- the covering of the Obeliai territory was set into order;
- new laboratory equipment was purchased;
- new hardware and software was purchased;
- additional storage area for finished products was fixed and set into use.

The Company invested LTL 3.554,6 thousand in 2007; LTL 1,212.6 thousand were spend on repairs of the buildings.

All these measures enabled to improve the utilisation of production capacity, product quality, ensure safe and efficient work and save material resources.

All documentation of quality management system has been reviewed and adjusted according to the current situation. Technological documentation and standards of production have been revised. Technological regulations for production of alcohol products have been adjusted and supplemented, recipes of the products have been reviewed, yields of material resources are being controlled. Quality management system ISO 9001:2000 is implemented in the Company, the term of certificate has been extended till 2009.

3. COMMERCIAL ACTIVITIES

In 2007, the sales revenue was LTL 67,794.75 thousand. Compared to 2006 (LTL 61,349.19 thousand), it increased by 10.5 per cent. The decrease in growth of sales volumes was determined by the increased competition in the strong alcohol market. Review of product range focusing on management of several brands also had certain impact on this.

The Company is operating in two geographical segments – Lithuanian and foreign markets. These segments are distinguished by geographical location of the clients. Sales on the Lithuanian market account for the major share of the Company's sales. In 2007, the sales in the European Union and foreign markets amounted to LTL 1,303,5 thousand (in 2006 – LTL 685,5 thousand).

In 2007, 11,052.1 thousand litres of alcoholic drinks were sold. Compared to the year 2006, the sales increased by 2.5 per cent.

Sales in 2005-2007:

Products	2007			2006			2005		
	thous. litres	LTL thous.	% of turnover	thous. litres	LTL thous.	% of turnover	thous. litres	LTL thous.	% of turnover
Alcoholic drinks	11,052.1	65,869.387	97.16	10,785.8	60,215.392	98.15	7,575.8	41,580.457	88.33
- vodka	9,406.5	51,968.875	76.66	9,583.1	50,018.465	81.53	6,137.1	30,554.678	64.91
- bitters	364.2	2,645.261	3.90	435.9	2,958.357	4.82	581.5	3,531.764	7.50
- sweet bitters	414.4	3,819.249	5.63	445.7	4,059.444	6.62	646.2	5,292.484	11.24
- liqueurs	245.9	2,757.528	4.06	213.1	2,464.757	4.02	169.1	1,989.175	4.23
- Vilnius gin	41.9	231.221	0.34	28.3	162.174	0.26	27.4	109.358	0.23
- Scottish whisky	3.3	84.622	0.12	4.0	64.204	0.10	3.4	53.098	0.11
- wine	168.7	333.553	0.49	74.4	438.753	0.72	11.1	49.900	0.11
- brandy	152.9	1,975.370	2.92	1.3	49.238	0.08	-	-	-
- alcoholic cocktails	254.3	2,053.708	3.04	-	-	-	-	-	-
Rectified ethyl alcohol	452.5	1,460.772	2.15	240.0	808.407	1.32	318.0	770.646	1.64
Methylated ethyl alcohol	55.1	113.223	0.17	51.2	107.209	0.17	69.1	143.224	0.30
Aldehydes	239.00	351.375	0.52	168.7	218.188	0.36			
Other goods and services	-	-	-	-	-	-	-	4,581.586	9.73
Total	11,798.7	67,794.757	100.00	11,254.7	61,349.196	100.00	7,962.9	47,075.913	100.00

Vodka accounted for the major part of the sales in 2007 – LTL 51,968.8 thousand or 76.66% of the total turnover of the Company.

The following products accounted for the major sales share: vodkas *Bajorų* – 15.9%, *Sobieski* – 17.96%, *Sobieski Superior* – 10.38%, *VD* – 6.2%, flavoured vodkas *Sobieski* – 22.12%, bitter *Čepkelių* – 2.99% of the total turnover. Besides, the following vodkas were produced and sold to Poland last year: *Vodka Wilenska*, *Senasis Vilnius* and *Balzam Wilenski*; vodka *Krolewska* was sold to France.

Profit before taxes in 2007 was LTL 2,044.5 thousand, in 2006 – LTL 4,233.3 thousand. The significant decrease in profit before tax in 2007 was determined by the decreased growth of sales volumes and increased production costs per provisory bottle due to the increase in prices of raw materials and energy. The Company invested a lot into the renewal of *Bajorų* vodka brand, implementation of the image and sales promotion strategy for Company's brands *Sobieski*, *Bajorų*, *Karvedys*, relations with media and other issues. Major attention was given to the supervision of product sales, restaurants and cafes. Non-traditional marketing was widely funded – cultural events were sponsored and leisure entertainments were organised.

The total amount of LTL 9,446.6 thousand was spend on advertising of alcoholic drinks, sponsorship and sales promotion during the reporting period. At the end of 2007, the Company had about 25.2 per cent of the Lithuania's vodka market.

In 2007, the Company got fully stocked with all raw stuffs and materials necessary for the production. The raw stuff and material procurement takes place in accordance with the existing EU procedures.

Purchases of auxiliary materials:

- bottles for main production from AB Panevėžio Stiklas;
- souvenir bottles, caps from the EU countries;
- labels, glue for labels (the most acceptable suppliers with regard to price, quality, supply and payment terms in Lithuanian and Poland).

Materials, machinery parts, construction materials for repairs, household supplies and office supplies were purchased under the application forms provided to the procurement department. The procurement department produces a list of acceptable suppliers, analyses their products in terms of price and quality, controls how the contractual obligations of the suppliers are fulfilled.

4. ECONOMIC-FINANCIAL RESULTS

Major part (97.16%) of the operating income of the Company consists of income from the sales of alcoholic drinks. During the year 2007, the Company earned LTL 67,794.75 thousand from its operating activities. Compared to the income in 2006 (LTL 61,349.19 thousand), the income increased by 10.5%.

The profit before tax in 2007 was LTL 2,044.49 thousand, in 2006 – LTL 4,233.34 thousand. The profit decreased due to the increased production costs (increase in prices for raw materials, fuel, energy), increased advertising expenses, repairs, operating taxes.

Detailed information about the financial results for the year 2007 is presented in the financial statements of AB Vilniaus Degtinė for the period ended 31 December 2007 prepared in accordance with the International Financial Reporting Standards.

The financial statements of AB Vilniaus Degtinė, which include the balance sheet as at 31 December 2007, the income statement for the period then ended, statement of changes in equity capital and cash flows statement as well as a summary of significant accounting principles and other explanatory notes to the financial statements, were audited by KPMG Baltics, UAB.

Indicators of the Company's activities for 2005-2007:

Key indicators	2007	2006	2005
Sales income (less excise tax), thousand LTL	67,794.8	61,349.2	47,075.9
Gross profit, thousand LTL	32,687.1	32,147.4	26,544.3
Operating profit (EBIT), thousand LTL	2,924.0	4,858.2	5,051.6
Profit before tax, thousand LTL	2,044.5	4,233.3	4,065.0
Profit for the year, thousand LTL	1,681.9	3,755.4	3,442.8
Earnings per share, LTL	0.069	0.154	0.141
Depreciation and amortisation, thousand LTL	3,360.9	2,931.9	3,029.3
EBITDA, thousand LTL	6,284.9	7,790.1	8,080.9
Non-current assets, thousand LTL	35,852.0	35,685.1	36,042.0
Current assets, thousand LTL	52,281.6	37,248.6	37,919.4
Total assets, thousand LTL	88,133.6	72,933.7	73,961.5
Share capital, thousand LTL	24,408.4	24,408.4	24,408.4
Shareholders' equity, thousand LTL	37,247.4	35,565.5	31,810.1
Non-current liabilities, thousand LTL	8,293.2	11,556.7	15,272.7
Current liabilities, thousand LTL	42,593.0	25,811.6	26,878.7
Net cash flows from operating activities, thousand LTL	(395.0)	(555.4)	10,224.8
Net cash flows from investing activities, thousand LTL	(4,187.9)	(3,081.2)	(1,036.2)
Net cash flows from financing activities, thousand LTL	4,270.3	(3,761.6)	(2,379.0)
Gross margin, %	48.2	52.4	56.4
Profit margin, %	2.48	6.12	7.31
ROE (return on equity), LTL	0.05	0.11	0.11
ROA (return on assets), LTL	0.034	0.062	0.065
Quick ratio	0.91	1.11	1.21
Net working capital turnover ratio	6.42	5.46	5.02
Book value per share, LTL	1.53	1.46	1.30
Net earnings per share, LTL	0.07	0.15	0.14
Asset turnover ratio	0.77	0.84	0.64
Current ratio	1.23	1.44	1.41
Debt-to-equity ratio	1.37	1.05	1.33
Debt ratio	0.58	0.51	0.57
Average return on assets, %	2.09	5.11	5.31

As at 31 December 2007, the Company's assets significantly increased (LTL 88,133.6 thousand). This was due to increased amount of raw materials, auxiliary materials, increased balance of trade receivables as a result of bigger turnover in December.

Long-term loan and credit for working capital granted by the Lithuanian branch of AS UniCredit Bank accounted for the major part of payables and liabilities.

Financial liabilities to the credit institution as at 31 December 2007 amounted to LTL 19,757.7 thousand. The average annual interest rate in 2007 was 5.8% for long-term loan and 6.1% for overdraft, the maturity of the loan is 15 March 2011.

Trade payables increased by 55.2% compared to the previous year. The Company has no overdue debts to suppliers. Most of other payables and current liabilities consist of excise tax and value added tax for 2007.

To guarantee the repayment of overdraft and long-term loans granted by the Lithuanian branch of AS UniCredit Bank, the Company's assets, inventories, cash and trade receivables were pledged as at 31 December 2007.

In 2007, net cash flows from operating activities (LTL 395.0 thousand) were negative because of the increase in advance payments, inventories, trade debts. Cash flows from investing activities (LTL 4,187.9 thousand) were negative because of the acquisition of non-current assets and loans granted to associated companies. Positive net cash flows from financing activities (LTL 4,270.3 thousand) resulted from the use of additional credit (overdraft) for turnover capital.

5. RISK FACTORS RELATED TO THE COMPANY'S ACTIVITIES

Economic risk factors. The main risk factor is strong other producers of alcoholic drinks and importers of strong alcohol. Another risk factor is the increasing excise tax and increasingly bigger restrictions imposed on advertising. With the competition increasing, the Company pays a lot of attention and money to create the image of its brand names, strengthen its sales positions in the market.

In 2007, AB Vilniaus Degtinė had no problems regarding the raw materials for production. Long-term contracts with suppliers were signed, providing for specific terms of supply. Sales contracts with buyers are usually signed for a calendar year.

Financial risk factors. The Company pledged the following assets in order to secure the repayment of bank loan and overdraft:

In LTL	2007	2006
Balance value of pledged trademarks	15,761,394	16,707,077
Balance value of pledged inventories	12,205,380	6,994,649
Balance value of pledged buildings and structures	8,585,436	10,598,013
Cash pledged to the Lithuanian branch of AS UniCredit Bank	1,148	350,395
Balance value of pledged machinery and equipment	0	1,997,164

Apart from the aforesaid cash, the Company has additionally pledged the cash flows to the accounts held with the bank that issued the loans and overdraft.

Besides, on 31 December 2007, the Company pledged trade receivables, which amounted to LTL 22,124,836 at that date (LTL 19,736,294 as at 31 December 2006).

In connection to the credit liabilities to the bank, additional capital requirements have been established for the Company. During the term of the loan agreement, the ratio of shareholders' equity to assets as per balance sheet should be at least 50 per cent, the Debt Service Cover ratio – 120 per cent. As at 31 December 2007, these indicators were 42.3 and 141.4 per cent, respectively. Equity to assets ratio deviated from the established requirement by 7.7 percentage points mainly because of the increase in inventories and trade receivables. When the Government announced about the increase of excise tax for alcoholic drinks as of 1 January 2008, the sales volumes increased significantly in December, along with the trade receivables and the demand for additional raw materials. The Company's management is certain that this incompliance is temporary, justifiable and will soon be liquidated.

On 28 September 2007, the Company undertook to the Tax Inspectorate to meet the tax liabilities related with the storage and transportation of excise-taxable goods. The liability amounts to LTL 7,950 thousand and is valid till 30 September 2008.

Ecologic risk factors. Last year, there were no fines imposed for pollution or restrictions or suspension of operations due to the damage to environment. There were no other ecologic factors or accidents in 2007. During 2007, the Company paid LTL 36 thousand of pollution tax, LTL 11.9 thousand of natural resources tax. The Company has agreements regarding the package waste handling. LTL 1,324.7 thousand were spent on package handling in 2007. These expenses will continue to increase with the growing production volumes.

Technical-technological risk factors. Since some of the technological equipment in the Company is depreciated, in order to eliminate the technical risk factors, the Company focuses on upgrading of equipment, development of technological processes and improvement of product quality.

Social risk factors. Employees of the Company constantly upgrade their qualification in various courses, seminars, study in higher schools. The situation on the labour market results in lack of employees and rapid increase in salaries. The salaries are being paid in time in the Company.

6. EMPLOYEES

In 2007, the average number of employees on the payroll was 234; this indicator has not changed significantly compared to 2006 (236 employees).

Average number of employees on the payroll in 2005-2007:

	2007	2006	2005
Number of employees	234	236	209

As at 31/12/2007, there were 256 people employed in the Company (as at 31/12/2006 – 245 employees).

Average monthly salary of the employees, in LTL:

Employees	2007		2006		2005	
	Number (31 December)	Average salary, LTL	Number (31 December)	Average salary, LTL	Number (31 December)	Average salary, LTL
Managing personnel	5	7,806	5	6,233	4	6,255
Specialists and office workers	66	2,821	60	2,784	54	2,484
Workers	185	1,679	180	1,554	160	1,345
Total	256	2,093	245	1,875	218	1,668

Classification of the employees by education:

	Number of employees 31/12/2007	Number of employees 31/12/2006	Number of employees 31/12/2005
With university degree	46	45	40
With higher education	67	60	51
With secondary or special secondary education	135	130	116
With incomplete secondary education	8	10	11

In 2007, the average monthly salary was LTL 2,093.13; compared to 2006, it increased by 11.6% because of the increase in salaries in June.

Financial relations with company management and other related persons:

	2007	2006
1. Labour-related amounts accrued and payable to:		
Management	602.0	401.7
Other related persons	-	-
2. Property and present given free of charge to:		
Management		
Other related persons		
3. Other significant amounts accrued during the year and payable to:		
Management		
Other related persons	219.6	189.6
Average number of managers	5	4

Employees of the Company constantly upgrade their qualification in various courses and seminars. 1 employee of the Company obtained university degree through correspondence studies in 2007. 10 employees of the Company continue their studies in 2007. Employees of the Company take part in the project *Development of Human Resources Uniting Industrial and Regional Associations of the Lithuanian Confederation of Industrialists*. Employees of the Company participating in this project study foreign languages, improve their computer skills, attend seminars developing social skills, improving competence and change management abilities.

7. PLANS AND PROSPECTS OF THE COMPANY'S ACTIVITIES

According to the approved program for 2008, the sales volumes should be increased by 20% compared to the year 2007, amounting to 13,262.5 thousand litres of alcoholic drinks by developing sales market in Lithuania and increasing exports to other countries.

Tasks and objectives in 2008:

- to further improve technological production process;
- to develop the brand names *Sobieski* and *Bajorų* and expand their product range;
- to increase the brand awareness and competitiveness in the market;
- to expand the range of imported drinks and increase their sales;
- to replace the depreciated, inefficient equipment, expand production capacities;
- to modernise the existing production processes reducing the demand for labour power.

Expansion of exports remains a priority task for this year. Exports to Latvia and Israel that started last year will be further developed and it is expected to expand exports to other countries – Estonia, Ireland. Vodka and bitters should be the main products marketed abroad.

Development and launching of new products is also planned for this year. It is a continuous process, by which the Company seeks to satisfy the demand of the active and dynamic strong drinks market.

General Director



Danas Kerbelis

Report of AB Vilniaus Degtinė on the compliance with the Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange in 2007

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.

PRINCIPLES/ RECOMMENDATIONS	YES /NO /IRRELEVANT	COMMENT
<p>Principle I: Basic provisions</p> <p>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
1.1. A company should adopt and make public the company’s development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	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.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The activities of all management bodies of the company are focused on creating value for the shareholders and client, providing high-quality products to the consumers.
1.3. A company’s supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	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.
1.4. A company’s supervisory and management bodies should ensure that the rights and interests of persons other than the company’s shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company’s operation, are duly respected.	Yes	Management bodies of the company ensure that the rights of all interested parties are respected. Quality management system (ISO 9001) has been implemented in the company; 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: The corporate governance framework		
The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The company follows this recommendation; it has the following supervisory and management bodies: general shareholders' meeting, supervisory council, board and the head of the company. Regular board meetings and supervisory council meetings, discussion of the most important issues of the company ensure effective supervision of company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The collegial management body of the company is the board, collegial supervisory body – supervisory council.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Irrelevant	The company has both supervisory council and the board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ¹	Yes	This recommendation is observed when the provisions of principles III and IV are applied in formation of the supervisory council of the company (and the board to the extent it is possible) or evaluation of its activities.

¹ Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.6 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

<p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.</p>	<p>Yes</p>	<p>The supervisory council of the company consists of three persons; the board consists of five persons.</p>
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Yes</p>	<p>The supervisory council and the board are elected for a term of 4 years; according to the Articles of Association of the issuer, it is not prohibited to re-elect these persons.</p>
<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The company partly follows this recommendation (the head of the supervisory council has never been the head of the company, but the chairman of the board has been the head of the company).</p> <p>The chairman of the supervisory council board represents the main shareholder of the company and is not related with day-to-day operations of the company.</p>

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

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies².

<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>Information about the candidates to the members of collegial bodies of the company is publicly available, but the controlling shareholder can propose the general shareholders' meeting to recall members of collegial bodies at its own discretion. Members of collegial bodies do not receive remuneration from the company's funds.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>The company collects the information about the official duties of the members of collegial bodies and their participation in the operations of other companies. This information is regularly revised and updated and it is made publicly available through the reports of the company.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>Detailed information about the education, professional experience, etc. of the candidates to the members of the supervisory council is provided to the shareholders' meeting.</p>

² Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>	<p>Yes</p>	<p>When electing the members of collegial bodies of the company, it is assured that the members have appropriate qualifications.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>Members of the collegial bodies of the company upgrade their qualifications at various refresher courses, special seminars where they are updated on basic changes in the regulations applicable to the company's activities.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient³ number of independent⁴ members.</p>	<p>No</p>	<p>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.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be</p>	<p>No</p>	<p>The company does not follow this recommendation of the Governance Code because the members of the supervisory council are employees of the controlling shareholder or associated companies.</p>

³The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

⁴It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>independent are the following:</p> <ol style="list-style-type: none">1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;		
--	--	--

<p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
---	--	--

<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	<p>No</p>	<p>Up till now, the independence of the members of the management bodies was not subject to assessment and disclosure in the company.</p>
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	<p>No</p>	<p>The company regularly discloses the relations of the supervisory council and the board with the company in its periodic reports, although, up till now, the independence of the members of the management bodies was not subject to assessment and disclosure in the company.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.⁵ The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Irrelevant</p>	<p>Members of collegial bodies do not receive remuneration from the company's funds.</p>

⁵It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁶ of the company's management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁷	Yes	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. At the regular meetings of supervisory council and board, the administration of the company reports about its activities.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company not- pertaining body (institution).	Yes	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.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial	Yes	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.

⁶ See footnote 3.

⁷ See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single person body of management, i.e. the company's chief executive officer.

<p>body. In the event a member of the collegial body should be present in less than a half⁸ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>		
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The members of the management bodies of the company follows the principles of communication with the shareholders established in the laws and, before making decisions that are of great importance to the company, consider the effect they will have on the shareholders and present the main information about company matters in the periodic reports.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The management bodies of the company conclude and approve transactions following the requirements of the laws and the Articles of Association of the company, observing the principle of acting to the benefit of the company.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.⁹ Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>	<p>Yes</p>	<p>Collegial management body, mostly dependent on the main shareholder operating in a similar business, makes decisions only based on the best interests of the company.</p>

⁸It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

⁹See footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>No</p>	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Irrelevant</p>	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of the collegial body. In</p>	<p>No</p>	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>

<p>cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>		
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	No	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	No	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>
<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <p>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</p>	No	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>

<p>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <p>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</p> <p>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</p>	No	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>

<p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p>	<p>No</p>	<p>The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.</p>

<p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible</p>		
---	--	--

<p>without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor’s management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company’s management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company’s operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor’s work program, and should be furnished with internal audit’s reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p>		
--	--	--

<p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	<p>The company does not have an established practice of evaluating and informing about the activities of the management bodies.</p>
<p>Principle V: The working procedure of the company's collegial bodies</p> <p>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure</p>	Yes	<p>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 convening of the meetings of the appropriate collegial body.</p>

<p>appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>		
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.¹⁰</p>	<p>Yes</p>	<p>The procedure of the meetings of the supervisory and management bodies is not strictly defined; when needed, meetings are called on a short notice.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>The members of the management bodies are properly notified about the convention of a meeting and supplied with all material necessary for the adoption of the resolutions.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	<p>The chairmen of collegial supervisory and management bodies of the company agree among themselves about the date and agenda of the meetings to be convened and work in close cooperation when adopting resolutions that are of high importance to the company.</p>

¹⁰ The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Ordinary registered shares, which form the statutory capital of the company, grant equal rights to all the shareholders of the company.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The company does not issue new shares.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting ¹¹ . All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	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 for important transactions). All the shareholders are provided with equal opportunities to get acquainted and participate in adopting important decisions.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	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.

¹¹ The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

<p>6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance.¹² It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>Documents prepared for the general shareholders' meeting, including draft resolutions of the meetings are made public through the internet. All information is presented in Lithuanian and English.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>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, as provided for by the Company Law.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Irrelevant</p>	<p>Up till now, there was no need to implement this recommendation in the company.</p>

¹² The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574)

Principle VII: The avoidance of conflicts of interest and their disclosure		
The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The company follows these recommendations; the members of its supervisory council and the board act upon these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

<p>Principle VIII: Company's remuneration policy</p> <p>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</p>		
<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.</p>	No	<p>The company does not prepare reports on salary policy because it is a confidential internal document of the company. The general information about the salaries paid to the management is disclosed and average salary of the company's employees is specified by categories in the annual report.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	Yes	<p>Information about the total amount of the salary paid out to the management during the year is made public every year through the reports.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <p>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</p> <p>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</p> <p>3) Sufficient information on the linkage between the remuneration and performance;</p> <p>4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p>	No	<p>The supervisory and management bodies of the company conclude and approve the contracts with the company; the contracts are confidential and not publicly available.</p>
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and</p>	No	<p>The supervisory and management bodies of the company conclude and approve the contracts with the company; the contracts are confidential and not</p>

<p>members of the management bodies. It should include, <i>inter alia</i>, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>		publicly available.
<p>8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	No	
<p>8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	No	The company does not make the salary policy publicly available because it is a confidential internal document of the company.
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</p>	No	

<p>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</p> <p>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any</p>		
---	--	--

<p>time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>No</p>	<p>It is not customary to use company shares as a remuneration</p>
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The conditions for any subsequent change in the exercise of the options, if permissible by law; 4) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>		
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		

<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p>Principle IX: The role of stakeholders in corporate governance</p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept stakeholders includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>Corporate governance system of the company ensures that all legally protected rights of the interest-holders are respected.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees</p>		

<p>on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		
<p>Principle X: Information disclosure and transparency</p> <p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</p>		
<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</p>	<p>Information about the financial results, economic activities and company governance is regularly disclosed through press releases, interim and annual reports and financial statements. All documents are publicly posted on the company's website in Lithuanian and English.</p>

<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>No</p> <p>No</p>	
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The company presents information through the information system used by Vilnius Stock Exchange in Lithuanian and in English simultaneously to the extent possible. The company strictly follows the principle not to disclose the information until such information is made public through the Exchange information system.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	<p>Yes</p>	<p>The company posts all information intended for the shareholders simultaneously and to the same extent in Lithuanian and in English on the website of the company, thus ensuring the unbiased timely access to the information.</p> <p>The Exchange posts the obtained information on its website and trading system, thus ensuring simultaneous presentation of information for everyone. Later on,</p>

<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	<p>Yes</p>	<p>The company follows these recommendations; it posts all the information specified in the recommendation on its website.</p>
<p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		
<p>11.1. Quarterly and annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.</p>	<p>No</p>	<p>The company partially follows these recommendations - only annual financial statements and annual report of the company are audited by an independent audit company.</p>
<p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p>	<p>Yes</p>	<p>The company follows these recommendations; the audit company is proposed to the general shareholders' meeting by the supervisory council of the company (upon the proposal of the board).</p>
<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>Irrelevant</p>	<p>The audit company has not provided to the company other services than audit and has not received any payment for this from the company.</p>