AB Vilniaus Degtinė

Interim Financial Statements for the year 2007

VILNIAUS DEGTINE

2008.02.29 Nr. 03-163

To the Se urities Commission of the Republic of Lithuania
Konstituc ijos Ave. 23
LT-0810 Vilnius

Nr.

CONFIR IATION BY THE PERSONS IN CHARGE

Followin the provisions of Article 22 of the Law on Securities of the Republic of Lithuania and he Rules on Preparation and Presentation of Periodic and Supplementary Information of Securit es Commiss on of the Republic of Lithuania, we, Director General of AB Vilniaus Degtinė Da as Kerbelis nd Finance and Administration Director Audra Jauniškienė, hereby confirm that he interim fi ncial statements for the IV quarter of 2007 prepared in accordance with the Internatic al Financial Reporting Standards as adopted by the European Union, to the best of our knowled e, give a fa and true view of assets, liabilities, financial status and the profit for the period of AB Vilniaus gtinė.

Enclosur . Interim financial statements of AB Vilniaus Degtinė for IV quarter of 2007 (40 pages)

Director General		Danas Kerbelis
Finance a d Administration Director		Audra Jauniškie e

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Company information

AB Vilniaus Degtinė

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

Management

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

Board

Darius Žaromskis
Raimundas Čičirka
Danas Kerbelis
Audra Jauniškienė
Andrejus Galuška

Auditor

UAB KPMG Baltics

Banks

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

Balance sheet

December 31

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**

Notes on pages 8–40 are an integral part of these financial statements.

Balance sheet (cont‘d)

December 31

In LTL	Notes	31/12/2007	31/12/2006
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	24,408,431	24,408,431
Legal reserve		2,440,843	2,440,843
Retained earnings (loss)		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 income tax liability		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 payables	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**

Notes on pages 8–40 are an integral part of these financial statements.

Income statement

December 31

In LTL	Notes	2007	2006
Sales revenue	5	**67,794,757**	**61,349,196**
Cost of sales		(35,107,615)	(29,201,839)
Gross profit	5	**32,687,142**	**32,147,357**
Other income	9	174,724	131,016
Sales and distribution expenses	6	(17,186,617)	(16,481,989)
Administrative expenses	7	(12,576,570)	(10,807,147)
Other expenses	9	(33,346)	(41,840)
Result from operating activities		**3,065,333,**	**4,947,397**
Financial income	10	23,135	103,139
Financial expenses	10	(1,043,969)	(817,189)
Profit before tax		**2,044,499**	**4,233,347**
Corporate income tax	11	(362,584)	(477,935)
Profit for the period		**1,681,915**	**3,755,412**
Basic and diluted earnings per share	22	0.07	0.15

Notes on pages 8–40 are an integral part of these financial statements.

Statement of changes in shareholders' equity

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
Capital and reserves as of 1 January 2006, restated		**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 of 31 December 2006, restated		**24,408,431**	**2,440,843**	**0**	**8,716,239**	**35,565,513**
Profit for the reporting period					1,681,915	1,681,915
Capital and reserves as of 31 December 2007	21	**24,408,431**	**2,440,843**	**0**	**10,398,154**	**37,247,428**

Notes on pages 8–40 are an integral part of these financial statements.

Statement of cash flows

31 December 2007

In LTL	2007	2006
Profit (loss) for the period	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)
Impairment of inventories	(13,062)	(111,377)
Net financial expenses	1,016,786	703,943
Gain (loss) on disposal of non-current assets	(258)	(17,969)
Income tax expenses	362,584	477,935
Net cash flows from ordinary activities before changes in working capital	6,070,967	3,945,961
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 payables	8,326,374	(1,754,631)
Net cash flows from operating activities	(5,983,533)	(4,382,233)
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 non-current assets	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)
Dividends paid		
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 at the beginning of the period	**384,747**	**7,782,968**
Cash and cash equivalents at the end of the period	**72,174**	**384,747**

Notes on pages 8–40 are an integral part of these financial statements.

Notes

1 Reporting entity

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

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

Shareholder	Number of shares	Nominal value 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 of 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 with the subsidiary of the Company in Obeliai.

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

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

2 Summary of significant accounting principles

Statement of compliance

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

The financial statements for the period from January to December 2007 presented below are preliminary and unaudited.

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 basis.

The preparation of the financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, 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 for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of IFRS 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 forth below have been consistently applied and coincide with those applied last year.

Foreign currency

Translation of amounts in foreign currencies into the national currency

Transactions in foreign currencies are translated at foreign exchange rate ruling at the date of 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 include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Cash and cash equivalents include cash balances and demand deposits.

Non-derivative financial instruments are initially recognised at fair value plus (except for the instruments recognised in the income statement at fair value) any direct attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognized on the day of transaction. The Company no longer recognises the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognised when it has been covered, revoked or expired.

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 method, less impairment, if any. Current receivables are not discounted.

Borrowings and other financial liabilities are stated at amortised cost on an effective interest method basis. Current liabilities are not discounted.

Financial derivatives

The Company did not use derivative financial instruments as of 31 December 2007.

Property, plant and equipment

Recognition and measurement

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

The cost of Company's assets consists of the expenses directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and other expenses incurred to produce these assets before setting them into use, expenses of disassembling, transportation and production site cleaning.

Notes

2 Summary of significant accounting principles (cont'd)

Property, plant and equipment (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

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such item or major overhaul when that cost is incurred 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 structures 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 are reassessed annually.

Notes

2 Summary of significant accounting principles (cont'd)

Non-current intangible assets

Intangible assets that include computer software and 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 entire service life. The amortisation rates of intangible assets can be specified as follows:

- Software and licences 3 years
- Sobieski trademark 20 years

Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are 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 financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Inventories

Inventories, including work in progress, are valued at the lower of cost or net realisable value. Net realisable value is the selling price, less the estimated cost of completion, marketing and distribution.

The costs of inventories is determines based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal 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 current assets in inventory, since they are not expected to be reused following the initial delivery. Bottles are booked to the cost of finished goods when used in production.

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

Impairment

Financial asset is impaired if there are if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Individually 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 that is deemed impaired on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that is tested for impairment on a portfolio basis.

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

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

An impairment loss is recognised wherever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash generating unit is the smallest cash generating asset group generating cash flows independent form other assets or asset groups. Impairment losses are recognised 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)

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 carried 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.

Provisions

Provisions are recognised in the balance sheet when it is probable that an outflow of economic benefits will be required to settle the 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)

Services rendered, assets disposed

Revenue from the services rendered is recognised in the income statement as the services are rendered, considering the extent of completion of the services. The revenue recognised is net of discounts provided.

Revenue from lease is recognised in the income statement on a straight-line basis over the term of 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.

Financial lease payments

Minimum lease payments are apportioned between the financial charge and the reduction of the outstanding liability. The financial costs are distributed over the whole period of financial lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Net financing costs

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

Interest income is recognised in the income statement as accrued, using the effective interest method. The interest expense component of financial lease payments is recognised 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets is recognised only to the extent it is likely that the future taxable profits will be available against which the assets can be utilised. Deferred tax asset is 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. Dilutes 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 reporting periods there were no any dilutive potential ordinary shares issued by the Company.

Notes

3 Critical 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.

Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning future events. Resulting 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, or national or local economic conditions that correlate with defaults on assets in the Company.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Then 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 loses on construction in progress

Construction in progress is related to the construction of soft drinks production facilities discontinued in1994 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 trademark

The Company uses 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 of 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 of 31 December 2006, deferred tax asset was equal to LTL 0 and the deferred tax liability decreased by LTL 399,309. As a result of adjusted comparatives, as of 31 December 2006, the total assets of the Company decreased by LTL 399,309 – to the amount of LTL 72,933,719.

Notes

5 Segment reporting

The Company is primarily involved in the production of 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 - production of alcoholic drinks and related products.

Results by business segments for 2007:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	63,815,679	1,812,147	113,223	2,053,708	67,794,757
Segment result	31,734,154	358,401	46,374	548,213	32,687,142
Operating expenses					(29,763,187)
Other activities, net					141,378
Result form operating activities					3,065,333
Net financing costs					(1,020,834)
Result before tax					2,044,499
Income tax expenses					(362,584)
Net result					**1,681,915**
Segment assets					**88,133,638**
Total liabilities					**50,886,210**
Capital expenditure					**3,554,607**
Depreciation and amortisation					**3,360,877**

Notes

5 Segment reporting (cont'd)

Results by business segments for 2006:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	60,215,392	1,026,595	107,209		61,349,196
Segment result	31,810,776	290,013	46,568		32,147,357
Operating expenses					(27,289,136)
Other activities, net					89,176
Result form operating activities					4,947,397
Net financing costs					(714,050)
Result before tax					4,233,347
Income tax expenses					(477,935)
Net result					**3,755,412**
Segment assets					**72,933,719**
Total liabilities					**37,368,206**
Capital expenditure					**3,209,601**
Depreciation and amortisation					**2,931,916**

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

The Company operates in two geographical segments – Lithuanian and foreign markets. These segments are distinguished by the geographical location of its customers. Major sales of the Company are in the Lithuanian market. Sales to foreign market amounted to LTL 1,303,529 in 2007 (LTL 685,507 in 2006).

Notes

In LTL		2007	2006
6	**Income and expenses of other activities**		
	Lease of premises	90,463	71,761
	Income form sales of materials and spare parts	45,836	0
	Result of the 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
	Net income and expenses of other activities	**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
Repairs and maintenance	1,212,640	1,343,471
Amortisation	1,046,737	1,053,277
Operating and other taxes	1,594,134	930,159
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**

Notes

	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 and 2006 include change in accrued vacation compensations.

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

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

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

Notes

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

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

The reconciliation of the effective tax rate is as follows:

In LTL	2007		2006	
Profit before tax		2 044 499		4 233 348
Income tax using the effective tax rate	18.0%	368,010	19.0%	804,336
Charity expenses deducted twice	(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

In LTL	2007 Temporary differences	2007 Deferred tax (15%)	2006 Temporary differences	2006 Deferred tax (15%)	2005 Temporary differences	2005 Deferred tax (15%)
Impairment of other receivables	885,209	132,781	885,209	132,781	885,209	132,781
Impairment of trade receivables	731,782	109,768	1,072,419	160,863	1,418,177	212,727
Impairment of construction in progress	545,822	81,873	543,060	81,459	362,040	54,306
Impairment of inventories	0	0	9,972	1,496	115,694	17,354
Accrued social security expenses for vacation reserve	174,824	26,223	151,400	22,710	103,955	15,593
Total deferred tax asset		**350,645**		**399,309**		**432,761**
Difference in depreciation of property, plant and equipment	(3,380,557)	(507,083)	(3,552,285)	(532,843)	(3,724,013)	(558,602)
Difference in amortisation 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)	(1,634,031)	(245,105)
Total deferred tax liability		**(983,804)**		**(891,463)**		**(803,707)**
Net deferred tax		**(633,159)**		**(492,154)**		**(370,946)**

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

The movement of deferred income tax is as follows:

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

Notes

13 Current tax liabilities

In LTL	2007	2006
Overpaid income tax (liability) as of 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 of 31 December	**1,327**	**(259,481)**

Notes

14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Constructio n in progress	Other tangible assets	Total
Cost as of 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
Transfer from inventories	0	0	0	0	0	0	0
Cost as of 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 of 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)
Reclassifications	0	0	0	0	0	0	0
Accumulated depreciation as of 31 December 2006	5,898,769	8,901,575	654,852,	1,704,832	543,060	0	17,703,088
Net book value as of 31 December 2006	**8,838,830**	**5,424,852**	**552,757**	**682,380**	**3,092,361**	**131,014**	**18,822,194**
Cost as of 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 of 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 of 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 of 31 December 2007	6,508,290	10,014,405	790,517	1,798,256	545,822	0	19,657,290
Net book value as of 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 in1994 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	Patents, licences	Software	Other	Total
Cost as of 1 January 2006	236,875	532,562	18,913,672	19,683,109
Additions during the year	0	48,433	0	48,433
Disposals	(22,360)	(133,106)	0	(155,466)
Cost as of 31 December 2006	214,515	447,889	18,913,672	19,576,076
Accumulated amortisation as of 1 January 2006	199,204	379,356	1,260,911	1,839,471
Amortisation for the year	17,924	89,669	945,684	1,053,277
Disposals	(22,360)	(133,106)	0	(155,466)
Accumulated amortisation as of 31 December 2006	194,768	335,919	2,206,595,	2,737,282
Net book value as of 31 December 2006	**19,747**	**111,970**	**16,707,077**	**16,838,794**
Cost as of 1 January 2007	214,515	447,889	18,913,672	19,576,076
Additions during the year	0	102,057	0	102,057
Disposals	(12,131)	(20,997)	0	(33,128)
Cost as of 31 December 2007	202,384	528,949	18,913,672	19,645,005
Accumulated amortisation as of 1 January 2007	194,768	335,919	2,206,595	2,737,282
Amortisation for the year	14,223	86,830	945,684	1,046,737
Disposals	(12,131)	(20,997)	0	(33,128)
Accumulated amortisation as of 31 December 2007	196,860	401,752	3,152,279	3,750,891
Net book value as of 31 December 2007	**5,524**	**127,197**	**15,761,393**	**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**

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 subscription	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. Change in impairment of receivables can be presented as follows:

In LTL	2007	2006
Impairment allowance for bad debts as of 1 January	(1,072,419)	(1,418,178)
Reverse of impairment allowance for bad debts	340,637	345,759
Impairment allowance for bad debts at the end of the period	**(731,782)**	**(1,072,419)**

19 Other receivables

In LTL	2007	2006
Loans granted	730,375	13,636
Prepayments to the 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 LTL 641,392 to two related companies (5.5 % fixed annual interest rate, maturity of the loans granted – December 2008) and interest-free loan of LTL 88,983 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 of 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 at the end of the period	**(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 (LTL 1,148 as of 31 December 2007 and LTL 350,395 as of 31 December 2006) and the 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 is made of 24,408,431 ordinary shares with the nominal value of LTL 1 each and the total share capital is LTL 24,408,431, 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 in case of and a share of residual assets. One ordinary share gives a right to one vote at the shareholders' meeting.

Legal reserve

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

Notes

22 Earnings per share

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

	2007	2006
Number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	1,681,915	3,,755,412
Earnings per share, in LTL	**0.07**	**0.15**

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

23 Interest bearing loans and borrowings

In LTL	2007	2006
Non-current liabilities		
Bank loans	7,660,037	11,064,498
Total non-current liabilities	**7,660,037**	**11,064,498**
Current liabilities		
Overdraft	8,693,210	0
Bank loans	3,404,461	3,404,461
Total current liabilities	**12,097,671**	**3,404,461**
Total	**19,757,708**	**14,468,959**

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	Over 5 years
Overdraft of LTL 9,000,000 – variable at the rate of 1 month's Vilibor + 1.15%	8,693,210	8,693,210			
Loan of EUR 4,930,000 (LTL 17,022,304) – variable at the rate of 3 months' EURIBOR + 1.45%	11,064,498	3,404,461	3,404,461	4,255,576	0
Total financial liabilities	**19,757,708**	**12,097,671**	**3,404,461**	**4,255,576**	**0**

The effective annual interest rates of the loan and overdraft of the Company as of 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, the Company has pledged tangible and intangible non-current assets, inventories, cash and cash inflows to the bank accounts and trade receivables. Fore further comments refer to Note 27.

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

Notes

25 Financial instruments

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

Credit risk

The Company controls credit risk or risk that a party to the transaction fails to fulfil its obligations, by using credit conditions and procedures of market analysis. The Company has no significant credit risk concentration because it is distributed among different buyers. According to the management, apart from the impairment allowances for bad receivables, the Company is not exposed to any significant risk of loss.

Liquidity risk

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

Interest rate risk

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

Foreign exchange risk

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

Notes

26 Related party transactions

Related parties of the Company are:

- parties that control, is controlled by or is 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:

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

Other main related parties are:

Company	Relationship
UAB Belvedere Prekyba	Belvedere group company
Sobieski Destylarnia S.A.	Belvedere group company
Vinimpex PLC	Belvedere group company
UAB Belvedere Baltic	Belvedere group company
Fabryka Wodek Polmos Lancut	Belvedere group company
Gemaco	Belvedere group company
I CH PTUP Vuador	Belvedere group company
IOOO 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 transaction (cont'd)

Sales to and purchases from related parties during the reporting periods ended 31 December 2007 and 31 December 2006 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		**7,161,834**	**11,395,391**
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		**118,980,631**	**115,383,402**
Excise tax		78,837,415	78,218,997
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 8 to the Financial Statements.

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

Notes

27 Off-balance and other liabilities

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

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

In addition to the aforesaid cash, the Company has pledged the cash flows to the accounts 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 as of 31 December 2007 (LTL 19,736,294 as of 31 December 2006).

In connection with the credit liabilities to the bank, The Company has additional requirements for the capital. During the term of the loan contract, the ratio of the shareholders' equity and assets recorded in the balance sheet must be at least 50 percent. The Debt Service Cover ratio – 120 percent. As of 31 December 2007, these ratios were 42.3 and 141.4 percent, respectively. The shareholders' equity and assets ratio deviated from the established requirement by 7.7 percentage points mostly because of the increase of inventories and trade receivables. When the Government announced about the increase in excise tax on alcoholic drinks as of 1 January 2008, the sales volumes grew significantly in December, at the same time increasing the trade receivables and additional demand for raw materials. Company's management was convinced that this non-compliance is temporary, justifiable and will be liquidated in the nearest future.

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

28 Fair value of financial instruments

Principal financial instruments of the Company not carried at fair value are trade and other receivables, trade and other payables as well as short-term borrowings.

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

Notes

28 Fair value of financial instruments (cont'd)

Carrying amount of trade receivables other financial property, payables and short-term credit lines is close to their fair value. The settlement period with suppliers is from 10 to 60 days, and credit term of purchasers is from 15 to 45 days. Advance payments are required from the customers that are not regular.