AB VILNIAUS DEGTINĖ

Interim Financial Statements and Interim Statement for the six-month period ended on the 30th June 2014
(unaudited)

Contents

Company Information

AB Vilniaus degtinė

Telephone:	+ 370 5 233 08 19
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Company number:	120057287
Registered at:	Panerių Str. 47, Vilnius, Lithuania

Management

Juozas Daunys, Director General

Dalius Rutkauskas, Buying and Selling Director

Genadij Jurgelevič, Production Director

Board

Darius Žaromskis

Juozas Daunys

Dalius Rutkauskas

Genadij Jurgelevič

Auditor

UAB Grant Thornton Rimess

Banks

AB DNB bankas

AB SEB bankas

AB Swedbank

Confirmation of the Responsible Persons

In accordance with the provisions Article 22 of Law on the Securities Market of the Republic of Lithuania and regulations for provision and preparation of periodical and additional information, confirmed by the Bank of Lithuania, we, the Director General Juozas Daunys and Chief Financial Officer Renata Baliūnaitė of AB Vilniaus degtinė, confirm that as we know, the unaudited Interim Financial Statements of AB Vilniaus degtinė for the six-month period ended on the 30th June, 2014, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, are realistic and properly show the assets, liabilities, financial condition, profit or loss, cash flows of AB Vilniaus degtinė, and Interim Statement of AB Vilniaus degtinė for the six-month period ended on the 30th June, 2014, provides a clear review of business development and operation, condition of the company.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Statement on Financial Position

In LTL	Notes	30.06.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible assets	14	29 009 287	30 307 703
Intangible assets	13	9 771 530	10 214 544
Financial assets	15	6 286 154	7 285 469
Total non-current assets		**45 066 971**	**47 807 716**
Current assets			
Inventories	16	7 803 891	6 823 312
Prepayments and future expenses	17	353 545	390 281
Trade receivables	18	25 911 330	29 584 770
Other receivables	12,19	1 000 632	507 911
Cash and cash equivalents	20	9 083	961
Total current assets		**35 078 481**	**37 307 235**
TOTAL ASSETS		**80 145 452**	**85 114 951**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Statement on Financial Position (cont'd)

In LTL	Notes	30.06.2014	31.12.2013
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	24 408 431	24 408 431
Legal reserve	21	2 440 843	2 440 843
Retained earnings (loss)		10 205 157	9 520 263
Total equity		**37 054 431**	**36 369 537**
Non-current liabilities			
Interest bearing loans and borrowings	23	1 550 306	2 809 827
Governmental grants	24	8 456 100	8 856 446
Trade payables		43 773	89 631
Deferred tax liability	11	928 608	803 773
Total non-current liabilities		**10 978 787**	**12 559 677**
Current liabilities			
Interest bearing loans and borrowings	23	19 022 062	18 987 561
Trade payables		5 505 796	8 973 351
Other payables	25	7 584 376	8 224 825
Total current liabilities		**32 112 234**	**36 185 737**
Total liabilities		**43 091 021**	**48 745 414**
TOTAL EQUITY AND LIABILITIES		**80 145 452**	**85 114 951**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Comprehensive Income Statement

In LTL	Notes	Jan-Jun 2014	Jan-Jun 2013
Sales revenue	4	**29 163 519**	**25 382 262**
Cost of sales		(19 537 725)	(17 829 990)
Gross profit	4	**9 625 794**	**7 552 272**
Other income	5	275 327	416 832
Sales and distribution expenses	6	(3 525 322)	(2 669 157)
Administrative expenses	7	(5 278 169)	(4 884 775)
Other expenses	5	(106 196)	(13 152)
Result from operating activities		**991 434**	**402 020**
Financial income	9	135 668	133 515
Financial expenses	9	(295 957)	(391 015)
Profit (loss) before tax		**831 145**	**144 520**
Corporate income tax	10	(146 251)	(60 195)
Profit (loss) for the period		**684 894**	**84 325**
Basic and diluted earnings (loss) per share	22	0.03	0.00
Other general income (expenditure)		0	0
Total general income (expenditure), less taxes		**684 894**	**84 325**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Comprehensive Income Statement

In LTL	Notes	Apr-Jun 2014	Apr-Jun 2013
Sales revenue	4	**14 845 669**	**11 425 577**
Cost of sales		(9 908 657)	(7 753 548)
Gross profit	4	**4 937 012**	**3 672 029**
Other income	5	140 812	150 863
Sales and distribution expenses	6	(1 699 805)	(1 385 548)
Administrative expenses	7	(2 810 157)	(2 356 649)
Other expenses	5	(6 982)	(6 576)
Result from operating activities		**560 880**	**74 119**
Financial income	9	69 465	67 063
Financial expenses	9	(156 662)	(197 441)
Profit (loss) before tax		**473 683**	**(56 259)**
Corporate income tax	10	(79 923)	(11 511)
Profit (loss) for the period		**393 760**	**(67 770)**
Basic and diluted earnings (loss) per share	22	0.02	0.00
Other general income (expenditure)		0	0
Total general income (expenditure), less taxes		**393 760**	**(67 770)**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Statement of Changes in Equity

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
Capital and reserves as on 1 January 2013		**24 408 431**	**2 440 843**	**0**	**9 473 464**	**36 322 738**
Profit (loss) for the period					84 325	84 325
Capital and reserves as on 30 June 2013		**24 408 431**	**2 440 843**	**0**	**9 557 789**	**36 407 063**
Capital and reserves as on 1 January 2014		**24 408 431**	**2 440 843**	**0**	**9 520 263**	**36 369 537**
Profit (loss) for the period					684 894	684 894
Capital and reserves as on 30 June 2014	21	**24 408 431**	**2 440 843**	**0**	**10 205 157**	**37 054 431**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Cash Flows Statement

In LTL	Jan-Jun 2014	Jan-Jun 2013
Profit (loss) for the period	684 894	84 325
Depreciation and amortisation	1 705 991	1 812 505
Impairment of trade receivables and other receivables	(44 038)	(4 343)
Net financial expenses	140 883	148 575
Gain (loss) on disposal of non-current assets	4 877	4
Corporate income tax expenses	146 251	60 195
Net cash flows from ordinary activities before changes in working capital	2 638 858	2 101 261
Change in inventories	(980 579)	1 263 379
Change in prepayments	36 736	(34 500)
Change in trade receivables and other receivables	3 852 404	6 732 535
Change in trade payables and other payables	(4 150 252)	(7 834 959)
Net cash flows from operating activities	(1 241 691)	126 455
Income tax paid	0	0
Net cash flows from operating activities	**1 397 167**	**2 227 716**
Interest	505 036	8 217
Proceeds from disposal of non-current assets	124	0
Acquisition of property, plant and equipment	(251 995)	(23 643)
Acquisition of intangible non-current assets	(37 644)	(17 686)
Acquisition of investments	0	0
Net cash flows from investing activities	**215 521**	**(33 112)**
Repayment of loans	(1 263 692)	(1 263 691)
Loans received	0	0
Increase (decrease) of other financial debt	65 419	(390 960)
Financial lease payments	(127 928)	(263 585)
Interest paid	(278 365)	(281 943)
Net cash flows from financing activities	**(1 604 566)**	**(2 200 179)**
Net cash flows from operating, investing and financing activities	**8 122**	**(5 575)**
Cash and cash equivalents at the beginning of the period	**961**	**10 140**
Cash and cash equivalents at the end of the period	**9 083**	**4 565**

Notes on pages 10-35 are an integral part of these financial statements.

Director General
Juozas Daunys

Chief Financial Officer
Renata Baliūnaitė

Vilnius,
28 August, 2014

Notes

1 Reporting entity

AB Vilniaus Degtinė (hereinafter referred to as the Company) was registered on the 23rd of November 1990 and it is domiciled in Vilnius, Lithuania. The Company has a subsidiary in Rokiškis district. Fifty per cent of the ordinary nominal shares of UAB (Private Limited Company) Dunkeris LT, which was established in 2013, are owned by the Company. UAB Dunkeris has only just begun to develop its operations in Lithuania.

AB Vilniaus Degtinė is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius.

As on the 30th of June 2014, its shares are held by the following shareholders

Shareholder	Number of shares	Nominal value in LTL	Total value in LTL
Sobieski Dystribucja Sp.zo.o.	16 668 632	1	16 668 632
Darius Žaromskis	3 602 498	1	3 602 498
SEB SA OMNIBUS (funds/inst clients)	2 233 476	1	2 233 476
Daiva Žaromskienė	1 220 422	1	1 220 422
Other shareholders	683 403	1	683 403
Total capital	**24 408 431**	**1**	**24 408 431**

The number of shareholders total 256

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 Rokiškis district. Here produced electric and thermal energy. Part of electric energy is sold.

The Company has major sales in the local market. The sales to the European Union and foreign markets are continuously increasing. Their weight in the total sales volume are increasing.

The Company employed 157 staff members as on the 30th of June 2014 (141 staff members as on the 30th of June 2013).

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 EU. Interim Financial Statements are unaudited.

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 EU 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 factors that are correspond to the present circumstances. On the basis of the assumptions and estimates mentioned, the judgements about carrying values of assets and liabilities that are not readily apparent from other sources are made. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Notes

2 Summary of significant accounting principles (cont'd)

Basis of preparation (cont'd)

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 on application of IFRS as adopted by the EU that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in separate Note.

The accounting principles 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 into litas 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 into litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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.

Notes

2 Summary of significant accounting principles (cont'd)

Non-derivative financial instruments (cont'd)

Loans, 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 or have derivative financial instruments within the period ended on the 30th of June 2014.

Non-current tangible assets

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 and expenses of disassembling, transportation and production site cleaning.

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 8–20 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 on each day of presenting financial statements.

Notes

2 Summary of significant accounting principles (cont'd)

Non-current intangible assets

Intangible assets that have limited useful life and 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. All other lease is treated as operational lease.

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 distributed according to norms calculated considering the use of production capacities.

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 tare, which includes plastic crates for placing the bottles of alcoholic beverages, to the operating expenses immediately after it is taken for use.

Governmental grants

Grants are accounted following the principle of accumulation, i.e. received grants or parts thereof are recognised as used in the periods, within which grant-related costs are incurred.

Notes

2 Summary of significant accounting principles (cont'd)

Grants are related to assets

Grants that are related to assets encompass grants received in the form of non-current assets or allotted for acquisition of non-current assets. Grants are accounted at the fair value of the assets received. Grants amortization is later reducing asset depreciation costs within the respective useful service life of the assets.

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 from 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.

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.

Notes

2 Summary of significant accounting principles (cont'd)

Reversals of impairment (cont'd)

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 has no determined allowances and inducement plans or payment schemes concerning its chares. Liabilities against retired former employees of the company are fulfilled 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 the obligation arising from a past event or fulfilment of irrevocable undertakings.

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.

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.

Notes

2 Summary of significant accounting principles (cont'd)

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 applying the effective interest rate method. 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 comprehensive 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.

Corporate income tax

Corporate 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 asset 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 revised on each day of provision of financial statements and is reduced to the extent it is no longer probable that the related tax benefit will be realised.

Notes

2 Summary of significant accounting principles (cont'd)

Segment reporting

Segment is a distinguishable component of the Company that is engaged either in providing related products or services, or in providing products or services within a particular economic environment 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.

Basic and diluted earnings (loss) 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 reporting periods there were no any dilutive potential ordinary shares issued by the Company.

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. Management of the Company, considering forecasts and budget, borrowing need, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no obscurities in the assessment of continuity of the Company's activities or doubts concerning its further operation. 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. Impairment losses on receivables are recognized to pay a delay of 1 year. 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 the group of receivables.

Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes

3 Critical accounting estimates and judgements (cont'd)

Impairment loses on construction in progress

Construction in progress is related with the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. By the year 2009 the construction in progress is quarterly tested for impairment and based on management estimates. Depreciation of the construction in progress is calculated since 2009.

Impairment loses on building and land

In 2009 the building with land was purchased. In 2011 property valuations have been carried out and impairment losses on property were recognised.

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.

4 Segment reporting

Taking into account the share of sales of the products being sold, the segments are excluded – Finished alcoholic beverages, nutritional ethyl alcohol (rectified and distilled) and its products, denatured ethyl alcohol are produced in the Company and goods for resale (alcoholic beverages, non-alcoholic beverages, etc.). Other income as well as the revenues and costs of financial activity are not classified to the segments; profit taxes are controlled. The revenues from electric energy sales are classified to other income.

Sales revenue and gross profit for January-June 2014

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	25 090 024	2 229 954	562 153	1 281 388	29 163 519
Gross profit	9 416 246	(11 375)	77 828	143 095	9 625 794

Sales revenue and gross profit for January-June 2013

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	19 609 903	4 356 422	48 584	1 367 353	25 382 262
Gross profit	6 940 884	400 097	24 185	187 106	7 552 272

Notes

4 Segment reporting (cont'd)

Sales revenue and gross profit for April-June 2014

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	12 443 366	1 698 839	10 219	693 245	14 845 669
Gross profit	4 910 839	(56 121)	4 408	77 886	4 937 012

Sales revenue and gross profit for April-June 2013

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	9 961 845	709 971	48 584	705 177	11 425 577
Gross profit	3 523 925	11 709	24 185	112 210	3 672 029

The Company's primary activities are carried out in the Lithuanian market, in the EU countries and other foreign markets. In January-June 2014, sales to EU and other foreign markets amounted to LTL 5 323 397 (in January-June 2013 – LTL 6 040 910), in April-June 2014, sales to EU and other foreign markets amounted to LTL 3 280 970 (in April-June 2013 – LTL 1 662 426). Considering the share of product sales in foreign markets in total revenue, no geographical segments are singled out.

In LTL	Jan-Jun 2014	Jan-Jun 2013
5 Income and expenses of other activities		
Lease of premises and utilities	65 468	54 948
Income from sales of intangible asstes	123	0
Income from sales of materials and spare parts	97 523	184 621
Electricity sales profit	0	80 515
Transportation	30 471	52 825
Other income	81 742	43 923
Total other income	275 327	416 832
Other expenses	(13 505)	(13 152)
Loss from sales of intangible asstes	0	0
Loss from sales of electricity	(92 691)	0
Loss from sales of materials and spare parts	0	0
Total other expenses	(106 196)	(13 152)
Net income and expenses of other activities	**169 131**	**403 680**

Notes

	In LTL	Apr-Jun 2014	Apr-Jun 2013
5	**Income and expenses of other activities (cont'd)**		
	Lease of premises and utilities	29 561	27 738
	Income from sales of intangible asstes	123	0
	Income from sales of materials and spare parts	62 421	85 672
	Electricity sales profit	14 519	7 662
	Transportation	17 015	12 141
	Other income	17 173	17 650
	Total other income	140 812	150 863
	Other expenses	(6982)	(6 576)
	Loss from sales of intangible asstes	0	0
	Loss from sales of electricity	0	0
	Loss from sales of materials and spare parts	0	0
	Total other expenses	(6 982)	(6 576)
	Net income and expenses of other activities	**133 830**	**144 287**

	In LTL	Jan-Jun 2014	Jan-Jun 2013
6	**Sales and distribution expenses**		
	Advertising expenses	(2 103 950)	(1 580 024)
	Personnel expenses	(654 274)	(409 750)
	Transportation expenses	(287 532)	(358 435)
	Market research expenses	(37 366)	(69 837)
	Packaging expenses	(91 450)	(41 864)
	Other expenses	(350 750)	(209 247)
	Total sales and distribution expenses	**(3 525 322)**	**(2 669 157)**

In LTL	Apr-Jun 2014	Apr-Jun 2013
Sales and distribution expenses		
Advertising expenses	(907 312)	(931 772)
Personnel expenses	(342 018)	(187 103)
Transportation expenses	(164 811)	(102 233)
Market research expenses	(21 483)	(15 194)
Packaging expenses	(42 393)	(21 854)
Other expenses	(221 788)	(127 392)
Total sales and distribution expenses	**(1 699 805)**	**(1 385 548)**

Notes

	In LTL	Jan-Jun 2014	Jan-Jun 2013
7	**Administrative expenses**		
	Personnel expenses	(1 616 970)	(1 542 040)
	Operating taxes	(849 787)	(768 419)
	Repairs and maintenance	(225 453)	(131 789)
	Amortisation and depreciation	(915 977)	(894 272)
	Consulting and training expenses	(321 335)	(139 345)
	Maintenance of cargo vehicles	(229 996)	(286 185)
	Security expenses	(126 300)	(99 774)
	Communications and IT maintenance expenses	(76 495)	(76 101)
	Utilities	(190 826)	(276 989)
	Impairment allowance of debts	44 038	4 343
	Other expenses	(769 068)	(674 204)
	Total administrative expenses	**(5 278 169)**	**(4 884 775)**

In LTL	Apr-Jun 2014	Apr-Jun 2013
Administrative expenses		
Personnel expenses	(812 246)	(754 050)
Operating taxes	(425 956)	(373 014)
Repairs and maintenance	(128 309)	(62 032)
Amortisation and depreciation	(447 937)	(463 954)
Consulting and training expenses	(133 510)	(77 270)
Maintenance of cargo vehicles	(110 895)	(129 563)
Security expenses	(62 175)	(50 700)
Communications and IT maintenance expenses	(37 339)	(40 226)
Utilities	(36 879)	(85 334)
Impairment allowance of debts	(236 072)	1 987
Other expenses	(378 839)	(322 493)
Total administrative expenses	**(2 810 157)**	**(2 356 649)**

	In LTL	Jan-Jun 2014	Jan-Jun 2013
8	**Personnel expenses**		
	Wages and salaries	(2 037 328)	(1 717 105)
	Vacation reserve	(212 811)	(194 197)
	Guarantee fund contributions	(4 409)	(3 783)
	Social security contributions	(699 548)	(594 245)
	Total personnel expenses	**(2 954 096)**	**(2 509 330)**

Notes

In LTL	Jan-Jun 2014	Jan-Jun 2013
8 Personnel expenses (cont'd)		
Wages and salaries	(1 026 033)	(819 418)
Vacation reserve	(118 070)	(86 106)
Guarantee fund contributions	(2 254)	(1 884)
Social security contributions	(356 397)	(282 210)
Total personnel expenses	**(1 502 754)**	**(1 189 618)**

Redundancy pays in January-June 2014, inclusive of social security contributions and guarantee fund contributions, amounted to LTL 4 080 (in January-June 2013 - LTL 16 781), in April-June 2014, inclusive of social security contributions and guarantee fund contributions, not amounted (in April-June 2013 - LTL 16 781) .

Personnel expenses for the management (directors) in January-June 2014 amounted to LTL 268 338 (in January-June 2013 - LTL 262 093), of which were amounted to LTL 0 for redundancy pays. Amounted to 4 872 LTL contributions to the pension fund. No loans and (or) indemnities were granted to the management (directors) and no other financial liabilities or non-financial obligations were undertaken. Other significant transactions for details to Note 27.

Average number of staff members on payroll for January-June 2014 was 147 (138 for January-June 2013).

Average number of managers (directors) for January-June 2014 was 3 (3 for January-June 2013).

In LTL	Jan-Jun 2014	Jan-Jun 2013
9 Financial income and expenses		
Interest income	133 368	133 368
Foreign exchange gain	2 300	147
Total financial income	135 668	133 515
Interest expenses	(274 250)	(277 288)
Other expenses	(21 707)	(113 727)
Foreign exchange loss	(0)	0
Total financial expenses	(295 957)	(391 015)
Financial income and expenses, net	**(160 289)**	**(257 500)**

Notes

In LTL	Apr-Jun 2014	Apr-Jun 2013
9 Financial income and expenses (cont'd)		
Interest income	67 052	67 063
Foreign exchange gain	2 413	0
Total financial income	69 465	67 063
Interest expenses	(143 591)	(137 970)
Other expenses	(13 071)	(52 553)
Foreign exchange loss	(0)	(6 918)
Total financial expenses	(156 662)	(197 441)
Financial income and expenses, net	**(87 197)**	**(130 378)**

In LTL	Jan-Jun 2014	Jan-Jun 2013
10 Corporate income tax expenses		
Current income tax for the period	(21 416)	0
Change in deferred income tax	(124 835)	(60 195)
Total corporate income tax expenses	**(146 251)**	**(60 195)**

11 Deferred tax	30.06.2014		31.12.2013	
In LTL	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
Deferred tax asset	6 060 265	909 040	6 376 458	956 468
Deferred tax liability	(12 250 984)	(1 837 648)	(11 734 938)	(1 760 241)
Net deferred tax liability		**(928 608)**		**(803 773)**

In LTL	Jan-Jun 2014	Jan-Jun 2013
Change in the deferred tax		
Deferred tax liability at the beginning of the period	(803 773)	(724 547)
Deferred tax expenses	(124 835)	(60 195)
Deferred tax liability at the end of the period	**(928 608)**	**(784 742)**

Notes

12 Corporate income tax

In LTL	Jan-Jun 2014	Jan-Jun 2013
Overpaid corpor. income tax (liability) at the beginning of the period	0	0
Current income tax for the period	(21 416)	0
Overpaid corpor. income tax (liability) at the end of the period	**(21 416)**	**0**

13 Intangible assets

In LTL	Patents, licences	Software	Other	Total
Cost as of 1 January 2013	45 820	557 240	18 913 672	19 516 732
Additions	0	17 686	0	17 686
Cost as of 30 June 2013	45 820	574 926	18 913 672	19 534 418
Accumulated amortisation as of 1 January 2013	43 695	535 882	7 880 697	8 460 274
Amortisation	750	7 270	472 841	480 861
Accumulated amortisation as of 30 June 2013	44 445	543 152	8 353 538	8 941 135
Net book value as of 30 June 2013	**1 375**	**31 774**	**10 560 134**	**10 593 283**
Cost as of 1 January 2014	45 820	676 938	18 913 672	19 636 430
Additions	0	0	37 644	37 644
Write-off	0	0	0	0
Cost as of 30 June 2014	45 820	676 938	18 951 316	19 674 074
Accumulated amortisation as of 1 January 2014	45 195	550 311	8 826 380	9 421 886
Amortisation	625	7 191	472 842	480 658
Write-off	0	0	0	0
Accumulated amortisat. as of 30 June 2014	45 820	557 502	9 299 222	9 902 544
Net book value as of 30 June 2014	**0**	**119 436**	**9 652 094**	**9 771 530**

All amortisation expenses are included under administrative expenses.

Notes

14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construction in progress	Other	Total
Cost as of 1 January 2013	36 096 406	24 225 356	1 200 462	2 142 060	1 910 219	0	65 574 503
Additions	0	16 108	199 504	7 535	0	0	223 147
Write-off and sale of	0	(4 192)	(10 924)	(743)	0	0	(15 859)
Reclassificationns	0	0	0	0	0	0	0
Cost as of the 30 June 2013	36 096 406	24 237 272	1 389 042	2 148 852	1 910 219	0	65 781 791
Accumulated impairment of 1 January 2013	2 371 448	0	0	0	477 555	0	2 849 003
Loss of impairment	0	0	0	0	0	0	0
Accumulated impairment of 30 June 2013	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated depreciation as of 1 January 2013	10 108 503	16 089 856	1 074 081	2 061 163	382 044	0	29 715 647
Write-off and sale of	0	(4 191)	(10 922)	(742)	0	0	(15 855)
Depreciation	548 811	652 834	57 642	24 602	47 755	0	1 331 644
Depreciation (grants)	168 688	231 658	0	0	0	0	400 346
Accumulated depreciation as of 30 June 2013	10 826 002	16 970 157	1 120 801	2 085 023	429 799	0	31 431 782
Net book value as of 30 June 2013	**22 898 956**	**7 267 115**	**268 241**	**63 829**	**1 002 865**	**0**	**31 501 006**
Cost as of 1 January 2014	36 096 406	24 413 239	1 389 042	2 151 169	1 915 219	24 000	65 989 075
Additions	0	84 510	88 859	75 635	62 000	21 260	332 264
Write-off and sale of	0	0	0	(557)	(5000)	0	(5 557)
Reclassificationns	0	24 000	0	0	0	(24 000)	0
Cost as of 30 June 2014	36 096 406	24 521 749	1 477 901	2 226 247	1 972 219	21 260	66 315 782
Accumulated impairment of 1 January 2014	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated impairment of 30 June 2014	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated depreciation as of 1 January 2014	11 543 502	17 565 122	1 172 525	2 073 665	477 555	0	32 832 369
Write-off and sale of	0	0	0	(556)	0	0	(556)
Depreciation	548 812	554 264	52 485	22 017	47 755	0	1 225 333
Depreciation (grants)	168 688	231 658	0	0	0	0	400 346
Accumulated depreciation as of 30 June 2014	12 261 002	18 351 044	1 225 010	2 095 126	525 310	0	34 457 492
Net book value as of 30 June 2014	**21 463 956**	**6 170 705**	**252 891**	**131 121**	**969 354**	**21 260**	**29 009 287**

Notes

In LTL	Jan-Jun 2014	Jan-Jun 2013
14 Property, plant and equipment (cont'd)		
Distribution of depreciation costs		
Cost of sales and write-off	(675 777)	(758 889)
Inventories	(101 190)	(146 193)
Administrative and other expenses	(448 366)	(426 562)
Total distribution of depreciation cost	**(1 225 333)**	**(1 331 644)**

In LTL	30.06.2014	31.12.2013
15 Financial assets		
Long-term loans granted	2 893 560	3 164 077
Interest receivable	599 519	774 346
Investments in associated companies	5 000	5 000
Trade receivables from comp. from the group	2 788 075	3 342 046
Total financial assets	**6 286 154**	**7 285 469**

Term of repayment of the loan and interest – March 2020. The loan was issued in Euros.

In LTL	30.06.2014	31.12.2013
16 Inventories		
Raw materials	4 195 511	3 725 902
Finished goods	2 599 545	2 222 888
Goods for resale	886 623	813 489
Work in progress	122 212	61 033
Total inventories	**7 803 891**	**6 823 312**

As of 30^{th} of June 2014, the remainder of inventories stored at the third parties warehouses is worth of LTL 0.

In LTL	30.06.2014	31.12.2013
17 Prepayments and deferred expenses		
Prepayments to suppliers	177 959	169 287
Deferred advertising expenses	49 677	37 840
Other expenses	125 909	183 154
Total prepayments and deferred expenses	**353 545**	**390 281**

Notes

In LTL	30.06.2014	31.12.2013
18 Trade receivables		
Trade receivables from comp. not from the group	23 818 271	27 546 119
Impairment allowance from comp. not from the group	(527 136)	(712 049)
Trade receivables from comp. from the group	3 585 991	3 574 707
Impairment allowance from comp. from the group	(965 796)	(824 007)
Net trade receivables	**25 911 330**	**29 584 770**

In LTL	30.06.2014	31.12.2013
Change in impairment of receivables for bad debts		
Impairment allow. for bad debts at the beginning of the period	(1 536 056)	(149 249)
Impairment allowance	(721 418)	(1 409 144)
Reverse of impairment allowance	764 542	22 337
Impairment allowance for bad debts at the end of the period	**(1 492 932)**	**(1 536 056)**

In LTL	30.06.2014	31.12.2013
19 Other receivables		
Interest receivable	308 195	505 036
Short-term loans granted	270 518	0
Tax paid in advance	420 245	0
Other receivables	1 674	2 875
Doubtful receivables	486 596	487 510
Total other receivables before write-down allowance	**1 487 228**	**995 421**
Impairment allowance	(486 596)	(487 510)
Total other receivables, net	**1 000 632**	**507 911**

In LTL	30.06.2014	31.12.2013
Change in impairment allowance of receivables		
Impairment allow.for receivables at the beginning of the period	**(487 510)**	**(489 338)**
Reverse of impairment allowance	914	1 828
Impairment allowance for receivables at the end of the period	**(486 596)**	**(487 510)**

Notes

In LTL	30.06.2014	31.12.2013
20 Cash and cash equivalents		
Cash at bank and in hand	9 083	961
Total cash and cash equivalents	**9 083**	**961**

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 they are declared and to capital repayment in case of reduction of capital. 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 at least 5 percent of the retained earnings available for distribution are required until legal reserve and the share premium reach 10 percent of the authorised capital. This reserve cannot be distributed.

22 Basic and diluted earnings (loss) per share

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

	Jan-Jun 2014	Jan-Jun 2013
Number of shares	24 408 431	24 408 431
Profit (loss) for the period attributable to the equity holders, in LTL	684 894	84 325
Basic and diluted earnings (loss) per share, in LTL	**0.03**	**0.00**

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

Notes

In LTL	30.06.2014	31.12.2013
23 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	1 263 603	2 527 295
Financial lease (leasing) liabilities	286 703	282 532
Total non-current liabilities	**1 550 306**	**2 809 827**
Current liabilities		
Overdraft, factoring	16 348 218	16 282 799
Bank loans	2 527 383	2 527 383
Financial lease (leasing)	146 461	177 379
Total current liabilities	**19 022 062**	**18 987 561**
Total	**20 572 368**	**21 797 388**

In LTL	Total	Up to 1 year	1-5 years	Over 5 ears
Schedule of repayment				
Bank overdraft	11 662 246	11 662 246	0	0
Factoring	4 685 972	4 685 972	0	0
Bank loans	3 790 986	2 527 383	1 263 603	0
Financial lease	433 164	146 461	286 703	0
Total financial liabilities	**20 572 368**	**19 022 062**	**1 550 306**	**0**

Redemption date of long-term credits – December 2015, of credit lines – August 2014 (contract will be continued for 1 year), of factoring – December 2014. In order to secure the bank loans, the Company has pledged its assets. For further comments refer to Note 28.

Under financial lease agreements, the Company's assets consist of vehicles. Financial lease terms are up to 3 years.

In LTL	30.06.2014	31.12.2013
24 Governmental grants		
Balance value at the beginning of the period	8 856 446	9 657 138
Grants received	0	0
Amortization	(400 346)	(800 692)
Balance value at the end of the period	**8 456 100**	**8 856 446**

The support was granted of the Project "Using distillery refuse (broga) for the production of electric power" for acquisition of non-current assets. The Project was finished in 2012. Part of the produced electric power is sold, and another part is used in the industrial activities of the Company. The amortization of the grant is accounted in the items of the „cost of sales" of the Comprehensive Income Statement. The amortization of the grant decreases the cost of depreciation of the related non-current tangible assets.

Notes

	In LTL	30.06.2014	31.12.2013
25	**Other payables**		
	Payable excise tax	3 798 581	4 340 275
	Payable VAT	2 588 153	3 073 511
	Payable profit tax	21 416	0
	Wages, vacation reserve and social security	915 866	616 226
	Other taxes payable	152 361	63 704
	Accrued expenses	33 821	85 715
	Other payables	74 178	45 394
	Total other payables	**7 584 376**	**8 224 825**

26 Financial risk management

In the course of using financial instruments, the Company faces the following risks:

- Credit risk;
- Liquidity risk;
- Market risk.

The present note provides for information on each of the aforementioned risks the Company faces, the Company's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's capital management. More detailed quantitative disclosures are presented in the present interim statement.

The Board is completely responsible for development and supervision of the company's risk management structure. The Company's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's activities. With the help of trainings, procedures of management standards, the Company aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

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

The Company accounts the impairment on the basis of evaluation of losses concerning trade and other amounts receivable. Such impairment consists only of specific loss related to individual significant tradings and other amounts receivable.

Notes

26 Financial risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that, upon maturity, the Company will be unable to fulfil its financial liabilities. The Company's liquidity management objective is to maximally secure sufficient liquidity of the Company, which enables the Company to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of loosing its good reputation.

The Company's policy is to maintain sufficient cash to cover planned operating expenditure, including financial liabilities; such security does not cover the influence unforecastable force majeure (such as natural calamities). Moreover, the Company has concluded a contracts for bank overdrafts in LTL and EUR.

Market risk

Market risk is the risk that market price changes, e.g. foreign exchange rates or interests rates, will affect the Company's income or the value of available financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimisation of the return.

Interest rate risk

The Company's borrowings are subject to variable interest rates related to EURIBOR, LIBOR EUR and VILIBOR. As of 30th June 2014, 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 does not face foreign currency risk on purchases and borrowings that are denominated in currencies other than Litas or 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 3.4528. The Company did not have any material exposure in other foreign currencies.

Capital management

The objective of the management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The Board observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans.

The Board also strives for maintaining the balance between higher return, which could be achieved through a higher level of borrowed funds, and safety, which is provided by a higher level of owner's equity. Equity makes at least 50 percent of authorised capital with share premium.

The Company's capital management policy did not change.

Notes

27 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:

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

Other main related parties are:

Company, person	Relationship
UAB Belvedere prekyba	Belvedere group company
Belvedere Scandinavia A/S	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
PHP Wieslav Wawrzyniak	Belvedere group company
Moncigale S.A.S.	Belvedere group company
Gognac Gautier	Belvedere group company
Marie Brizard&Roger Inten.	Belvedere group company
Marie Brizard Espagne	Belvedere group company
IOOO Galiart	Belvedere group company
Chais Beaucairois SAS	Belvedere group company
Domain Menada Sp. Z o.o.	Belvedere group company
SIA Belvedere Distribution	Belvedere group company
Natural persons	Shareholders, Members of board, Managers (directors)

Notes

27 Related party transactions (cont'd)

Sales to and purchases from related parties

	Type of transaction	Jan-Jun 2014	Jan-Jun 2013
Purchases	Inventories	83 697	403 220
Purchases	Services	296 544	199 521
Total purchases		**380 241**	**602 741**
Sales	Inventories incl.excise tax	21 625 681	22 650 271
Sales	Services	47 796	45 024
Sales	Interest	133 368	133 368
Total sales incl.excise tax		**21 806 845**	**22 828 663**
Excise tax		(7 892 509)	(13 892 794)
Total sales net of excise tax		**13 914 336**	**8 935 869**

Balances outstanding with related parties	30.06.2014	31.12.2013
Trade receivables	**10 445 856**	**11 360 212**
Impairment allowance from comp. from the group	(965 796)	(824 007)
Net trade receivables	**9 480 060**	**10 536 205**
Trade payables	**284 056**	**367 492**

Information on the loans granted to the associated company and amounts of interest payeable (in this note provided as amounts receivable) is provided in Note 15 and in Note 19. Raw materials for alcoholic beverages production as well as alcoholic beverages are purchased from Belvedere group companies. Alcoholic beverages and rectified ethyl alcohol are sold to Belvedere group companies. Interest rates and all outstanding related party transactions are priced at market prices. Personnel expenses to the Company's management (directors) is enclosed in the Note 8.

28 Off-balance liabilities

As a security for the loan facilities, the following assets have been pledged

In LTL	30.06.2014	31.12.2013
Carrying amount of pledged buildings and structures	20 856 583	21 544 529
Carrying amount of pledged equipments	4 901 062	5 383 136
Carrying amount of pledged trademarks	9 614 450	10 087 292
Carrying amount of pledged inventories	7 803 891	6 823 312
Cash and cash equivalents in accounts of bank	8 503	704
Amounts receivable from buyers (the right of claim)	25 911 330	29 584 770
Rights of land lease	0	0

Value of pledged assets in this table is equal to the value of financial statements. The Company controls and executes the financial liabilities, indices set by the bank and additional requirements.

Notes

29 Fair value of financial instruments

Fair value is defines as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties at market prices but not in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Fair value of assets and liabilities provided in the balance sheet as on the 30th of June 2014 does not significantly differ from their carrying amount, except for non-current real estate, the depreciated cost-price of whuch significantly differs from its fair value.

Financial assets and financial liabilities as on the 30th of June 2014

In LTL	Carrying amount	Fair value
Granted long-term loans and other receivables, investments	6 286 154	6 286 154
Advance payments and deferred expenditure	353 545	353 545
Trade receivables	25 911 330	25 911 330
Other receivables	1 000 632	1 000 632
Cash and cash equivalents	9 083	9 083
Total financial assets	**33 560 744**	**33 560 744**
Loan and other interest-bearing amounts	20 572 368	20 572 368
Trade payables	5 549 569	5 549 569
Other payables	7 584 376	7 584 376
Total financial liabilities	**33 706 313**	**33 706 313**

30 Events after the reporting period

After the reporting period there were no events which influence the financial results of the Company.

Interim Statement

1 Company Information

Interim Statement prepared a for the year ended on the 30th June 2014, unaudited.

	Public stock company Vilniaus Degtinė (hereinafter – the Company)
Legal form	Public stock company
Date and place of registration	23rd of November 1990, Vilnius branch of the State Enterprise Centre of Registers
Code	120057287
Registered office address	Panerių Str. 47, Vilnius, Lithuania
Telephone	+ 370 5 233 08 19
Fax	+ 370 231 5052
E-mail	vd@degtine.lt
Website	www.degtine.lt

Branch	Obeliai distillery
Branch address	Vienožinskio Str.3, Audronių I village, Rokiškis district, Lithuania
Telephone	+ 370 458 78723
Fax	+ 370 458 78723
E-mail	obeliai@degtine.lt

„Spiritus Vilnensis" is the slogan of the Company, which has been cherishing over one century's production traditions and actively implementing innovations. It expresses the Company's strategy to develop beverages with every single drop filled with unique and multicultural spirit and secret of Vilnius.

The Company produces and sells vodkas, liqueurs, and other alcoholic beverages, alimentary rectified and methylated ethyl alcohol, alimentary distilled ethyl alcohol, imports and sells alcoholic products made by producers of other countries. Obeliai spirit distillery, a Branch of Company, makes alimentary distilled grain ethyl alcohol. Here produced and electric and thermal energy. Part of electric energy is sold.

2 Authorised Capital and Securities

The structure of the authorised capital

Type of shares	Number of shares, pcs.	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

Ordinary registered shares the Company's authorised capital consists of grant equal rights to all owners of the Company's shares. All shares of Company are fully paid up. The Company has not issued any debt or derivative securities that would be converted into shares. The Company has not acquired and does not hold any shares of its own.

Total number of shareholders as on the 30th June, 2014 was 256.

Interim Statement

2 Authorised Capital and Securities (cont'd)

Shareholders who held or managed more than 5 percent of the authorised capital of the issuer as of the 30th June 2014

Shareholder's name, surname or company name, registered office address, company code	Number of the shares the shareholder holds under the ownership right, pcs.	Portion of the authorised capital held, %	Portion of votes held, %
Sobieski Dystribucja sp. z o.o. ul. Bellottiego 1, 01-022, Warszawa, Poland, 230030460	16 668 632	68.29	68.29
Darius Žaromskis, Lithuania	3 602 498	14.76	14.76
SEB SA OMNIBUS (funds/inst clients) Luxembourg, LUESSE22	2 233 476	9.15	9.15
Daiva Žaromskienė, Lithuania	1 220 422	5.00	5.00

None of the Company's shareholders have any special rights of control.

There are no restrictions of the rights to vote. There are no agreements between the shareholders, which might cause the transfer of securities and (or) right of vote to be restricted.

Since the 25th of June 2002, ordinary registered shares of Company are listed in the Secondary trading list of AB NASDAQ OMX Vilnius. Emitent acronym is VDG1L. All 24,408,431 pcs. of shares are traded. There are no restrictions concerning transfer of the shares. The Company has signed an agreement with AB FMĮ Finasta on administration of accounting of issued securities.

Securities trading history

Indices	2011 January - December	2012 January - December	2013 January – December	2014 January – June
Opening price, LTL	1.519	1.015	0.863	0.794
Maximum price, LTL	1.519	1.015	0.998	0.950
Minimum price, LTL	0.694	0.176	0.691	0.739
Last session, LTL	0.863	0.777	0.794	0.794
Turnover, pcs.	80,571	254,231	108,579	17 815
Turnover, LTL million	0.09	0.16	0.09	0.02
Capitalisation at the end of the period, LTL million	21.07	18.96	19.38	19.38

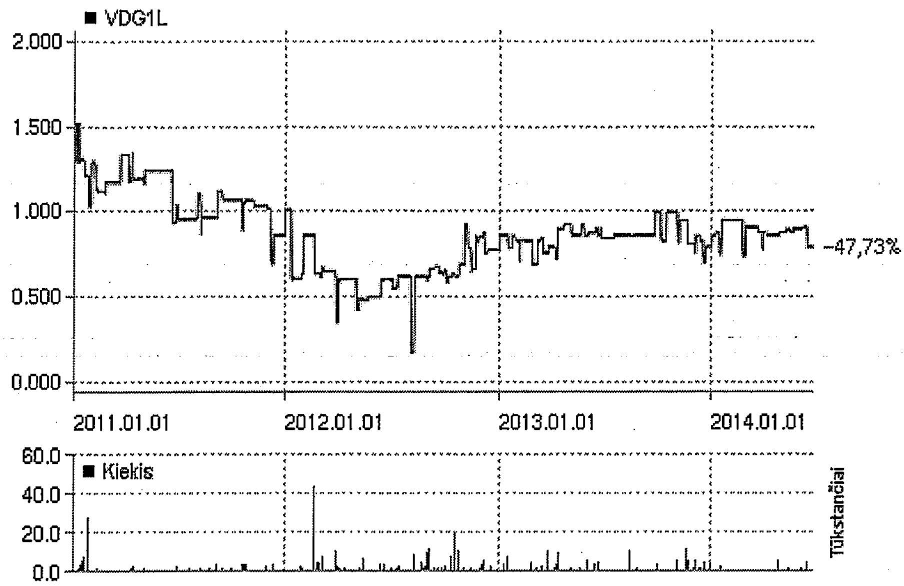
Source: www.nasdaqomxbaltic.com/market

The following transactions were not registered in 2014 January-June: over-the-counter (OTC) transaction in the amount to LTL 0 (0 units of shares).
(source: http://www.csdl.lt/lt/aktualijos/statistika/uzbsanda.php)
Detailed information on trade of the shares can be found on the securities exchange NASDAQ OMX Vilnius.

Interim Statement

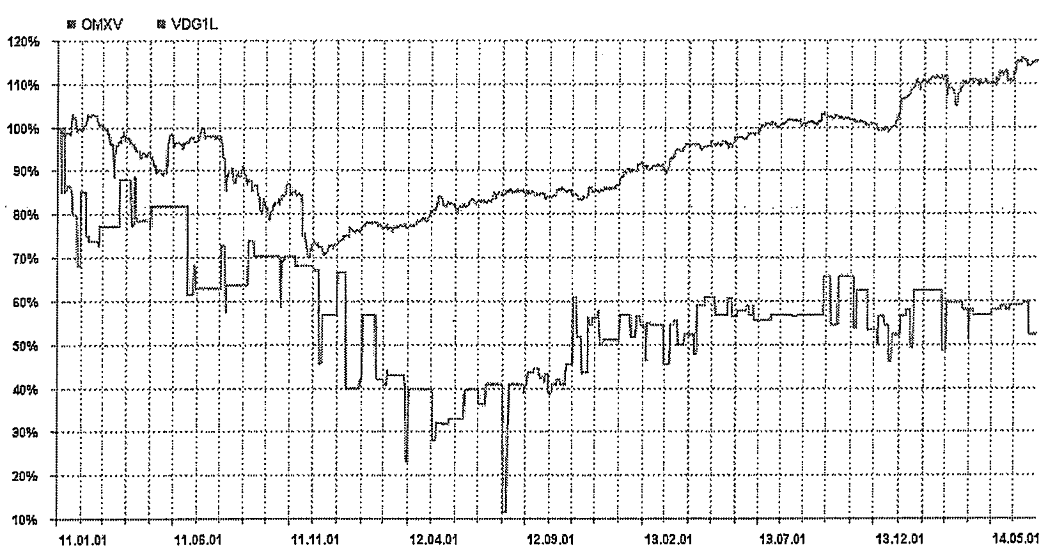
2 Authorised Capital and Securities (cont'd)

Trade in the shares of AB Vilniaus degtinė on, NASDAQ OMX Vilnius in year 2011-2014 January-June



Source: www.nasdaqomxbaltic.com/market

Comparison of the price of the shares of AB Vilniaus degtinė (VDG1L) with OMX Vilnius (OMXV) index in year 2011-2014 January-June



Index/shares	2011.01.01	2014.06.30	+/-%
OMX Vilnius	409,65	471,95	15,21
VDG1L	0,44 EUR	0,23 EUR	-47,73

Source: www.nasdaqomxbaltic.com/market

Interim Statement

3 Company Management

The Company has the general shareholders' meeting, collegial supervisory body – the supervisory council, collegial management body – the board and one-person management body – the head of the Company (Director General). The functions of audit committee are performed by the Company's supervisory board. The Company does not have other Committee.

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 4 members. Articles of Association of the Company provide for 5 board members. It is elected by the supervisory council for a term of four years. The supervisory council can recall the board in corpore 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. Beside the competence defined in the Law of Companies of the republic of Lithuania, on the basis of the Articles of Association of the Company, the Board passess decisions in relation to the following aspects:

- on branch and representative offices‘ establishment or termination of their operation, and approves assignment of directors;
- on transfer, rent or mortgage of part of its non-current assets as well as on guarantees on fulfillment of other parties duties;
- on non-current asets purchase for the price higher than LTL 200,000;
- on reorganisation or liquidation of its affiliates and subsidiaries;
- on loan lending;
- approves the procedure of representation in its affiliates and subsidiaries as well as in other companies, where the Company has its shares;
- makes decisions on the candidatures of authorised persons who shall represent the Company in its affiliates and subsidiaries;
- approves the list of commercial secrets;
- approves the sules on purchasing godos, works, and services.

The head of the Company is elected and recalled or dismissed from his/her duties, his/her salary is determined, job regulations are approved, incentives are awarded and penalties imposed by the board of the Company.

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

Control over any possible conflicts of interest that the management bodies of the Company may face is maintained by constantly collecting and exchanging information on the involvement of the Supervisory Council, the Board or the head of the Company with other legal entities (participating in the capital or operations of such third parties), evaluating and taking into account the risks posed by such participation.

Over the reporting period, there were no harmful transactions concluded on behalf of the Company or conflicts of interests incurred.

The Shareholders' General Meetings of the Company are convened in accordance with the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. The decision to convene a Shareholders' General Meeting is made by the Board of the Company.

3 Board meetings, 2 meetings of the Supervisory Council and 1 regular Shareholders' General Meeting took place in 2014 January-June. On these occasions, an auditing firm was selected and the Financial Statements for 2013 were approved.

Interim Statement

3 Company Management (cont'd)

All Board and Supervisory Council members participated in all meetings. The head of the Company, its Chief Financial Officer, Chairman of the Board and Chairman of the Supervisory council all attended the regular Shareholders' General Meeting.

Articles of Association of the Company are amended in accordance with the Company Law of the Republic of Lithuania. The most recent working of the articles of association was registered at the Register of Legal Entities of the Republic of Lithuania on the 11th of August 2008.

Members of the collegial supervision, management bodies as on the 30th of June 2014

Name, surname	Position	Participation in the authorised capital of the issuer, percent	Term
Dariusz Jamiola	Chairman of supervisory council	-	04-2012 – 04-2016
Tomasz Kowalski	Member of supervisory council	-	04-2012 – 04-2016
Darius Šiaudinis	Member of superv. council, Head of Marketing	-	04-2012 – 04-2016
Darius Žaromskis	Chairman of the Board	14.76	12-2011 – 12-2015
Juozas Daunys	Board member, Director General	-	12-2011 – 12-2015
Dalius Rutkauskas	Board member, Buying and Selling Director	-	12-2011 – 12-2015
Genadij Jurgelevič	Board member, Production Director	-	10-2012 – 12-2015
Juozas Daunys	Director General	-	from 07-07-2011
Renata Baliūnaitė	Chief Financial Officer	-	from 31-03-2011

The members of collegial supervisory and management bodies were not remunerated for their work in supervisory council and board. The Company has not granted any loans or guarantees, and did not pay out any dividends to these persons. In 2014 January-June, a total of LTL 103 thous. (excluding VAT) were paid for legal services received.

In January-June 2014, 99 thous. LTL of employment related benefits including taxes were calculated for the members of administration (director general and chief financial officer) – on an average 50 thous. LTL for one member. 3 thous. LTL were calculated as income in kind, 5 thous. LTL – contributions to the pension fund. The Company has not disposed of any assets, has not granted any loans or guarantees, and has not paid any dividends to these persons.

There are no significant agreements the Company is a party to that would come into force, change or be terminated in case of change in the Company's control. There are no agreements between the Company and members of its collegial management and supervision bodies or employees providing for payment of compensation in case of their resignation or dismissal without a good reason or in case if their employment is discontinued due to a change in the Company's control.

The Company, in pursuance of its duties in accordance with the legal acts governing the securities market, published the information on the essential events in the issuer's activities:

- 28.02.2014 – Publication of interim operating result for 12 months of 2013;
- 25.03.2014 – Convening of the annual general meeting of shareholders;
- 03.04.2014 – Publication of draft decisions of the annual general meeting of shareholders;

Interim Statement

3 Company Management (cont'd)

- 24.04.2014 – Publication of decisions of the annual general meeting of shareholders;
- 30.05.2014 – Publication of interim operating result for 3 months of 2014.

Detailed information in major events can be found on the Company's website www.degtine.ltor the website of, NASDAQ OMX Baltic www.nasdaqomxbaltic.com.
The Company is a member of the Lithuanian Food Exporters Association (LitMEA).

4 Production Activities

The primary business activity of the Company is the manufacture of vodka, scented vodka, bitters, liquers and other alcoholic beverages. The manufacturing process uses purified water and natural ingredients: nuts, berries, fruit juice, honey and herbs. The Company continues to espouse long-standing Lithuanian production traditions, and its products have won multiple awards for their quality and outstanding recipes. In January-June 2014 the Company's technologists and marketing specialists developed 57 new products within vodka, bitter, liqueur, rum, and fortified wine category, whereof 24 were custom made as "private labels".

Alcoholic beverages manufactured

Name	Measurement unit	January-June, 2014	January-June, 2013	Change (+,-), percent
Alcoholic beverages	000s litres	5 795.9	4 032.3	+ 43.7

In January-June, 2014 alcoholic beverages production increased by 43.7 percent, because increase sales of alcoholic beverages in the domestic market and expansion into foreign markets.

Upon the improvement of performance processes of the bottling plant, production efficiency increased by 2 percent. Manufacturing processes were put to good order and improved, workplaces were standartized and new manufacturing department staff were trained.

The Branch produces distilled food grade ethyl alcohol from rye and triticale. 1 168.7 thousand liters of absolute alcohol was produced in 2014 January-June.

Cogeneration plant is powered with biogas to generate electricity and heat using the internal combustion engines. Steam is used in generation process. Excess electric power is sold to AB Lesto. This project reduced the costs of energy resources of the Branch as well as environmental pollution. Installed power is 1.5 MW. 2 494.1 MWh of electric power was generated in 2014 January-June.

The Company's Management successfully supervises the ISO 9001:2000 management and the LEAN manufacturing control systems. The continued efficiency of supervision, harmonious development of the Company and its competetive advantages are assured. The Company continues to improve the quality and recipes of its manufactured products, make production processes more efficient, decrease production costs and ensure safe working conditions for its staff.

Interim Statement

5 Commercial activities

Sales revenue 2014 January-June reached LTL 29 164 thous. (in 2013 January-June – LTL 25 382 thous.). Sales revenue increased by 14.9 percent, compared to the same time period last year. Sales revenue of alcoholic beverages throughout the first half-year increased by 27.9 percent (or LTL 5 480 thous.).

Sales revenue in the Lithuanian market made up the largest portion of the Company's sales (81.8 percent). Domestic market sales increased by 23.3 percent; those in the EU market fell, but sales to third countries increased 4.2 times. Sales to Latvia, Poland, Estonia and Denmark made up the largest portion of the income from the EU market. Sales to Ukraine, Israel, Azerbaijan , Iraq made up the largest portion of the income from third countries.

Alcoholic beverages sold

Name	Measurement unit	January-June, 2014	January-June, 2013	Change (+,-), percent
Alcoholic beverages	000s litres	5 784.6	4 111.9	+ 40.7

40.7 percent more alcoholic beverages were sold in 2014 January-June than in the same time frame last year. Vodka made up the largest weighted portion of the sales, that is, 61.2 percent of litres of all alcoholic beverages sold. Sales of alcoholic beverages grew in 2014 January-June: sales of wine 5.4 times, sales of bitters by 47.5 percent, brandy - 20.5 percent, vodka - 15.5 percent. The volume of sales of non-alcoholic beverages was not large.

On domestic market the company focused on the promotion of its main trademarks. In January limited edition products "Bajorų senovinis butelaitis" and "Gedimino plieninė" vodka were offered on the market. "Bajorų" trademark was expanded to the train category, "Renaissance" brandy was supplemented with new flavored beverage "Renaissance Fleur". "Sobieski" product packages were renewed in May with the help of promotional campaign. With a view to expand vodka consumer market, in June the company presented brand-new vodka – "Gedimino salyklinė". This vodka distinguishes for being developed for both vodka and whiskey experts.

In Lithuania, the advertisement of alcohol is restricted by the Law on Advertising of the Republic of Lithuania and Law on Alcohol Control of the Republic of Lithuania.

Raw material and material inventories required for production are purchased at market prices from reliable Lithuanian and foreign suppliers; the company performs continuous search for new suppliers. The suppliers by country are: 52 percent from Lithuania, 15 percent from Poland, 12 percent from Latvia and 21 percent from other countries.

Interim Statement

6 Economic-Financial Ratios

Detailed information on the results of the Company's activities is presented in interim financial statements. Financial statements were developed in accordance with International Financial Reporting Standards adopted for application in the EU.

Economic-financial indices

Indices	January–June, 2014 / 30.06.2014	January–June, 2013 / 31.12.2013	Change (+,-), percent
Sales revenue (loss), excl. excise tax, LTL	29 163 519	25 382 262	+14.9
EBIT, LTL	991 434	402 020	+146.6
EBITDA, LTL	2 697 425	2 214 525	+ 21.8
Profit (loss) before taxes, LTL	831 145	144 520	+5.8 k.
Profit (loss) of the period, LTL	684 894	84 325	+8.1 k.
Depreciation, amortisation and impairment, LTL	1 705 991	1 812 505	- 5.9
Non-current assets, LTL	45 066 971	47 807 716	-5.7
Current assets, LTL	35 078 481	37 307 235	-6.0
Total assets, LTL	80 145 452	85 114 951	-5.8
Share capital, LTL	24 408 431	24 408 431	-
Owner's equity , LTL	37 054 431	36 369 537	+ 1.9
Non-current liabilities, LTL	10 978 787	12 559 677	-12.6
Current liabilities, LTL	32 112 234	36 185 737	-11.3
Net cash flows from operating activities, LTL	1 397 167	2 227 716	-37.3
Net cash flows form investing activities, LTL	215 521	(33 112)	+7.5 k.
Net cash flows from financing activities, LTL	(1 604 566)	(2 200 179)	+27.1
Gross profit margin ratio, %	33.01	29.75	+3.3
Operating (net) profit margin ratio, %	2.35	0.33	+2.0
EBIT profit margin ratio, %	3.40	1.58	+1.8
EBITDA profit margin ratio, %	9.25	8.72	+0.5
ROE (return on equity), LTL	0.019	0.002	+9.5 k.
ROA (return on assets), LTL	0.012	0.005	+2.4 k.
Quick ratio	0.838	0.827	+1.3
Net working capital turnover ratio	8.355	7.071	+18.2
EPS (earnings per share), LTL	0.028	0.003	+9.3 k.
Debt to equity ratio	1.163	1.107	+5.1

No profits were distributed in the form of dividends in 2014 January-June.

In 2014 January-June, sales revenue increased by 14.9 percent. The Company earned LTL 684 894 in profits (LTL 84 325 in 2013 January-June).

The lower cost of resources and raw materials used in production influenced the 3.3 percent increase in the gross profitability indicator for alcoholic beverages sold by the Company.

Interim Statement

6 Economic-Financial Ratios (cont'd)

Investment in 2014 January-June totaled LTL 335 004, where of LTL 109 759 is assets acquired through financial lease (vehicles).

The value of the Company's assets decreased (by 5.8 percent). Tangible assets and intangible assets have decreased by 4.3 percent and 4.3 percent respectively due to depreciation and amortization. Current assets have decreased (by 6.0 percent) following the decrease of trade receivables (by 12.4 percent).

Net working capital turnover ratio has increased (by 18.2 percent) and demonstrates a high number of net working capital turnovers (8.355 ratio) as well as sufficient need for working capital.

Long-term liabilities have decreased (by 12.6 percent) as a result of credits repaid to the bank and amortization of the governmental grants intended for the implementation of the combined heat and power plant construction project (the governmental grants decreased by 4.5 percent).

Short-term liabilities have decreased (by 11.3 percent) following the decrease of accounts payable (by 38.6 percent).

7 Risk Factors

Economic Risk Factors

The main risk factors are: large concentration of alcohol in the domestic market, competition, the extent of the shadow economy, the possibility of an increase in excise tax, increasing restrictions on the advertisement and sale of alcohol, uncertainty in the political situation of certain export markets (Ukraine, Russia), overproduction of ethyl alcohol in the region. As competition increases, attention is focused on and funds are assigned to producing new products and creating brand images, reinforcing positions within the domestic market and developing sales in foreign markets.

The Company did not find it difficult to procure itself with necessary raw materials and materials for production. The supply agreements which were signed ensure supply of materials, raw materials and energy resources. Production sales agreements with buyers are entered into for a period of one calendar year. The intended terms for delay of payments allow to plan and balance the cash flows. Debt handling is performed by employees who are competent and responsible for debt management.

Financial Risk Factors

To secure repayment of bank loans, the Company has pledged a part of its assets. Information on pledged assets and financial risk is presented in Note 29 and Note 27 to the Interim financial statements. The Company controls and fulfils the bank's requirements on index sizes as well as the additional requirements.

Environmental Risk Factors

The manufacturing process did not have to be restricted or halted due to any harm to the environment. There were no other environmental risk factors or accidents. Environmental pollution decreased by building the new water-heating boiler. Waste water at the Branch is collected and treated at our own biological treatment installations. Secondary raw materials are sorted and handed over for utilization or recycling. Each year, the Company enters into an agreement with a waste management service for the management of the taxed product packaging waste. The Company incurred LTL 628 thous. in costs for product packaging waste management in 2014 January-June.

Interim Statement

7 Risk Factors (cont'd)

Technical –Technological Risk Factors

Since a portion of the Company's technological installations are worn-out, attention will be focused on renewing equipment, developing technological processes and improving production quality in order to eliminate any technical risk factors. After applying the LEAN system maintenance method for installations to the equipment of the bottling department (70 percent of all equipment), said equipment is now being serviced more efficiently.

Social Risk Factors

The availability of qualified workers and competent specialists, capable of satisfying the needs of the Company, remains low in the labour market. There are currently no vacancies within the Company. Wages are being paid on time. All employees have been provided with safe and adequate working conditions.

Information on other risk factors is presented in Note 27 to the interim financial statements.

8 Employees

Average number of employees

Indices	January-June, 2014	January-June, 2013
Number of employees	147	138

Average listed number of employees increased by 6.5 percent as a result of increased scope of production and sales.

Average monthly salary of employees

Employees	January-June, 2014		January-June, 2013	
	Number as on 30.06.2014	Average monthly salary (in LTL)	Number as on 30.06.2013	Average monthly salary (in LTL)
Managers (directors)	3	16 184	3	15 697
Specialists and white-collar workers	63	3 674	56	3 357
Blue-collar workers	91	1 833	82	1 684
Total	157	2 714	141	2 495

In implementing its action strategy and set goals, the Company ensures that its employees receive the best conditions and are paid a competitive wage on time. Wages depend on position, responsibility and the supply and demand of labour within the market. There is a system in place for financially incentivising individual staff members that contribute to the Company's performance. The collective agreement outlines the social guarantees of employees. There are no special rights or duties for Company employees (or a discrete portion thereof) envisioned in either the employment contracts or the collective agreement.

Interim Statement

8 Employees (cont'd)

Employee distribution by education

Employees	Number as on 30.06.2014
With higher education	55
With post-secondary education	16
With higher secondary or vocational secondary education	86
Total	157

All employees have the opportunity to develop personally and professionally, and to progress with their career regardless of their gender, age or nationality. Employees are constantly raising their qualifications, improving their knowledge of finances, marketing, export and production.They are encouraged to seek any requisite education.

The successful operation of the Company rests on its creative employees, unfazed by responsibility and constantly seeking new forms of productive work together with efficient solutions to problems. They are always sharing their experiences and providing suggestions and ideas to improve performance and working conditions.

In order to create greater value to the customer and to increase its competitive advantage, the Company adopted the LEAN production control system. Staff are certified during training and during further development. Employees are rewarded for implementing ideas that are of economic value to the Company.

9 Research and Development Activities

Development of new products (beverages and recipes) is a continuous part of the Company's activities. The Company regularly carries out experimental development projects involving experimental tests based on internal studies and experience of its employees. It keeps on further developing the production of flavoured vodkas and bitters. Most attention is paid to the development of traditional vodka and improvement of its taste. The products of the Company, which hold deep Lithuanian traditions of production, have received numerous awards for exceptional quality and recipes. Significant achievements in development of new products are rewarded with medals gained at different fairs and exhibitions.

10 Environmental Protection

The Company carries out its production activities in accordance with the Integrated Pollution Prevention and Control Permit. The Company tries to reduce negative impact on the environment, implements pollution prevention means, which assure that performed activities have no negative impact on the air, water, and soil. The Company always monitors its activity indices, plans and implements investments to enable reducing production and operating costs, energy consumption, and improving the environmental condition.

Key sources of pollution at the Company's Branch Obeliai distillery are boiler-room and ethyl alcohol production shop. The boiler-room produces steam needed for the technological process, provides thermal power to production and domestic facilities. Waste and sewage that is formed during the production process are collected and purified in the Company's own purification facilities. To improve the control over the work of sewage purification facilities, regularly carries out control tests. The program of monitoring underground waters of the water body is carried out.

Interim Statement

10 Environmental Protection (cont'd)

Natural gas is used in the technological process of production facilities in Vilnius. Production, domestic and surface sewage gets into sewerage networks of UAB Vilniaus vandenys. Waste of all kinds that is formed in the Company (glass, metal, paper, cardboard, plastic and etc.) are sorted and delivered to waste management companies.

Hazard and risk analysis has been carried out, accident prevention means and accident liquidation plan have been prepared. The Company's buildings have been assessed and marked in accordance with the general fire-prevention rules.

The Company declares all natural water resources used, taxed product packaging, waste and emissions from both mobile and stationary sources of pollution. In 2014 January-June, LTL 9 thous. were paid for the use of national natural resources (water) and LTL 7 thous. - for the environmental pollution caused by mobile and stationary sources of pollution. The Company no longer has a duty to declare waste and emissions from stationary sources of pollution, combustion installations, with a thermal efficiency lower than 20,0 MW.

11 Internal control and quality system

The purpose of the Company's control system is ensuring the implementation of the Company's aims and objectives in a way that the Company could reach long-term profitability and would create reliable financial and management accountability system.

The internal control of the Company is a dynamic process the purpose of which is to guarantee that the Laws, Legal instruments and rules accepted by the Company are followed, proper methods of protecting the Company's property are implemented, mistakes are avoided and any abuse is revealed. The process has three stages:

- setting standards and norms;
- comparison of factual and estimated data;
- making decisions after having analysed the data.

The organisational structure clearly defines the functions of the employees and their accountability for the quality of work. The current accounting management system ensures right accounting of the data and the control. Systemic and instantaneous inventory performed at the Company ensures protection of assets from unauthorised use or embezzlement. The management ensures that the employees of financial division have appropriate expertise, experience and most recent knowledge relevant for preparation of reliable financial accounts.

The management always aims that the internal control system would accelerate the management processes and would help manage the business risk.

The Company has implemented the quality management system ISO 9001:2000. After the implementation of ISO 9001:2000 standard, the Company is a solid and reliable partner in the foreign markets. The Company is oriented to the long-term goals and quality. The clients are trusting the products and quality of work more. The employees clearly understand the aims and tasks that are assigned to them, and their set positions.

Production management system LEAN facilitates creating greater value to the client and increase the competitive advantage by using fewer resources. Having eliminated the exisitng losses, timely execution of orders, better usage of current assets has been ensured, and the employees are involved in constant process of improvement and efficiency increase.

Interim Statement

12 Business Plans and Forecasts

Sales revenue in 2014 January-June increase by 14.9 percent (in 2014 January-June LTL 29 164 thous. (EUR 8 446 thous.), in 2013 January-June LTL 25 382 thous. (EUR 7 351 thous.)), the sales of alcoholic beverages manufactured by the Company rose by 27.9 percent, or LTL 5 480 thous. (EUR 1 587 thous.).

The main reasons that determined growth (in January-June 2014, as compared to respective period last year) are as follows:

- Investment into strengthening of trademarks, development of new products increased by 70.5 percent.
- Growth of main category sales in quantitative terms: wine – 5.4 times, vodka – 15.5 percent, brandy – 20.5 percent, all bitter – 31.4 percent.
- Sales revenue of manufactured alcohol drinks to the European Union countries increased by 22.3 percent, to the third countries – 4.2 times.

In January-June 2014 profit before tax reached 831 thousand LTL (241 thousand EUR), during respective period in 2013 profit before tax totaled 145 thousand LTL (42 thousand EUR).
In January-June 2014 EBITDA reached 2 697 thousand LTL (781 thousand EUR), in January-June 2013 EBITDA totaled 2 215 thousand LTL (642 thousand EUR).

The Company's operational priorities for 2014 are:

- *export*
  it is envisioned to invest in the main export-oriented brands - „Shotka Vodka Kanabi", „Rock Crystal Vodka", „Renaissance Brandy" - and in developing sales. It is planned to increase sales volumes twofold in export markets;
- *bolstering brands*
  investing in the primary brands: „Sobieski", „Bajorų", „Gedimino", „Čepkelių", „Starka", „Renaissance";
- *expanding the assortment*
  it is planned to invest in the categories of rum, whiskey and wine alcoholic beverages;
- *modernizing production capacities*
  in order to make the manufacturing process more effective, there are plans to invest in modernizing the existing manufacturing equipment;
- *renewing IT equipment and software*
  the aim is to make the internal processes and operational management more effective.

Due to rather instable geopolitical situation, further market forecasts are quite complicated. It is expected that the alcohol market of 2014 will stand up to the level of 2013, whereas increasing export of the company as well as successfully reformed product and trademark portfolio will affect stable and increasing performance results of the company.

13 Events after the Reporting Period

After the reporting period there were no events which could influence the financial results of the Company.

Director General
Juozas Daunys

Vilnius,
28 August, 2014