AB Vilniaus Degtinė

Financial Statements
for the period ended
31 March 2007

Contents

Company information

AB Vilniaus Degtinė

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Company code:	120057287
Registered at:	Panerių str. 47/2, Vilnius, Lietuva

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

Vilnius branch of Bayerische Hypo-und Vereinsbank AG
AB SEB Vilniaus Bankas

Balance Sheet

March 31

In LTL	Notes	31/03/2007	31/03/2006
ASSETS			
Non-current assets			
Property, plant and equipment	14	19,264,965	18,822,194
Intangible assets	15	16,609,993	16,838,794
Other non-current assets		20,738	24,143
Deferred income tax asset		386,487	399,309
Total non-current assets		**36,282,183**	**36,084,440**
Current assets			
Inventories	16	7,794,532	6,994,649
Prepayments and deferred expenses	17	1,382,645	1,578,708
Trade receivables	18	17,763,108	28,082,669
Other receivables	19	194,379	207,815
Cash and cash equivalents	20	977,882	384,747
Total current assets		**28,112,546**	**37,248,588**
TOTAL ASSETS		**64,394,729**	**73,333,028,**

Notes on pages 8–36 are an integral part of these financial statements.

Balance Sheet (cont‘d)

March 31

In LTL	Notes	31/03/2007	31/03/2006
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)		9,204,043	8,716,239
Total equity		**36,053,317**	**35,565,513**
Non-current liabilities			
Interest bearing loans and borrowings	23	10,213,382	11,064,498
Deferred income tax liability		914,347	891,463
Total non-current liabilities		**11,127,729**	**11,955,961**
Current liabilities			
Interest bearing loans and borrowings	23	3,405,207	3,404,461
Trade payables		3,488,223	6,374,199
Advances received		18,281	19,990
Corporate income tax payable		333,323	259,481
Other payables	24	9,968,649	15,753,423
Total current liabilities		**17,213,683**	**25,811,554**
Total liabilities		**28,341,412**	**37,767,515**
TOTAL EQUITY AND LIABILITIES		**64,394,729**	**73,333,028**

Notes on pages 8–36 are an integral part of these financial statements.

Income statement

March 31

In LTL	Notes	2007 IQ	2006 IQ
Sales revenue	5	**12,032,125**	**14,304,825**
Cost of sales		(6,233,769)	(6,771,787)
Gross profit	5	**5,798,356**	**7,533,038**
Other income	9	42,618	116,230
Sales and distribution expenses	6	(2,585,860)	(2,729,563)
Administrative expenses	7	(2,475,222)	(2,379,308)
Other expenses	9	(12,438)	(70,485)
Result from operating activities		**767,454**	**2,469,912**
Financial income	10	5,450	23,236
Financial expenses	10	(175,553)	(159,390)
Profit before tax		**597,351**	**2,333,758**
Corporate income tax	11	(109,547)	(414,645)
Profit for the period		**487,804**	**1,919,113**
Earnings per share	22	0.02	0.08

Notes on pages 8–36 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 (loss)	Total shareholders' equity
Capital and reserves as of 1 January 2006		**24,408,431**	**2,440,843**		**6,442,986**	**33,292,260**
Change in accounting policy (Note 4)					(1,482,159)	(1,482,159)
Capital and reserves as of 1 January 2006, restated		**24,408,431**	**2,440,843**		**4,960,827**	**31,810,101**
Transfer of reserves						
Profit for the IQ of 2006					2,044,189	2,044,189
Result of the change in accounting policy					(125,076)	(125,076)
Capital and reserves as of 31 March 2006, restated		**24,408,431**	**2,440,843**	**0**	**6,879,940**	**33,729,214**
Profit for the reporting period					1,836,299	**1,836,299**
Capital and reserves as of 31 December 2006	21	**24,408,431**	**2,440,843**	**0**	**8,716,239**	**35,565,513**
Profit for the IQ of 2007					**487,804**	**487,804**
Capital and reserves as of 31 March 2007		**24,408,431**	**2,440,843**		**9,204,043**	**36,053,317**

Notes on pages 8–36 are an integral part of these financial statements.

Statement of cash flows

For the period ended 31 March 2007

In LTL	2007 IQ	2006 IQ
Profit (loss) for the period	487,804	1,919,113
Adjustments for:		
Depreciation and amortisation	802,914	728,702,
Impairment on construction in progress	(99,580)	45,255
Impairment of trade receivables and other receivables		
Impairment of inventories	(3)	(39,737)
Net financial expenses	169,944	131,628
Gain (loss) on disposal of non-current assets	647	(3,488)
Income tax expenses	109,547	414,645
Net cash flows from ordinary activities before changes in working capital	1,471,273	3,196,118
Change in inventories	(799,880)	(1,009,859)
Change in prepayments	196,063	(89,425)
Change in trade receivables and other receivables	10,336,564	6,664,979
Change in trade payables and other payables	(8,626,738)	(10,921,156)
Net cash flows from operating activities	2,577,282	(2,159,343)
Income tax paid		(21,729)
Net cash flows from operating activities	**2,577,282**	**(2,181,072)**
Interest received	5,157	23,236
Proceeds from disposal of non-current assets	170	3,500
Acquisition of property, plant and equipment	(888,331)	(301,884)
Acquisition of intangible non-current assets	(29,790)	(18,507)
Net cash flows from investing activities	**(912,794)**	**(293,655)**
Repayment of loans	(850,370)	(375,492)
Payment of financial lease		(13,136)
Interest paid	(220,983)	(190,929)
Dividends paid		
Net cash flows from financing activities	**(1,071,353)**	**(579,557)**
Net cash flows from operating, investing and financing activities	**593,135**	**(3,054,284)**
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	**977,882**	**4,728,684**

Notes on pages 8–36 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	4,881,686	1	4,881,686
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 alcoholic beverages: vodkas, bitter and sweet vodkas, 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.

The Company has major sales in the local market, which is increasing due to aggressive advertising campaigns, especially of Sobieski brand vodkas.

AB Vilniaus Degtinė employed 237 staff members as of 31 March 2007 (232 staff members as of 31 March 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.

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, except the property, plant and equipment, which is presented at deemed cost.

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)

Financial instruments

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

Other financial instruments

Non-derivative financial instruments include investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

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.

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. 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 are initially recognised at fair value less direct costs related to the occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortised cost on an effective interest method basis. Trade payables are initially recognosed at fair value and are subsequently measured at amortised cost. Current liabilities are not discounted.

Property, plant and equipment

Recognition and measurement

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

Certain items of property, plant and equipment that have been indexed in accordance with Lithuanian legislation prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the indexed amount at the date of indexation less indexed accumulated depreciation and impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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.

Notes

2 Summary of significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

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 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. The amortisation rates of intangible assets can be specified as follows:

- Software and licences 3 years
- Sobieski licence 20 years

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 in the ordinary course of business, less the costs 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.

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 cist of finished goods when used in production.

Notes

2 Summary of significant accounting principles (cont'd)

Change in accounting policy

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. In Company's financial statements for the periods beginning before 1 January 2006 the Company recorded multiple usage tare under inventories.

The accounting policy has been applied retrospectively and comparatives have been adjusted.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Impairment

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. Impairment losses are recognised in the income statement.

Notes

2 Summary of significant accounting principles (cont'd)

Impairment (cont'd)

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 other 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

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.

Liabilities

Liabilities are initially recognised at fair value less direct costs related to the occurrence if respective loan and other liabilities. Subsequent to the initial recognition, liabilities are stated at amortised cost on an effective interest method basis. Current liabilities are not discounted.

Notes

2 Summary of significant accounting principles (cont'd)

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 is recognised 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.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

Services rendered, assets disposed

Revenue from the services rendered is recognised in the income statement as the services are rendered. 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 expenses

Operating expenses consist of costs related to sales personnel, advertising, administrative staff, management, office premises and office expenses, etc., including depreciation and amortisation.

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. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to the investments in the subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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

2 Summary of significant accounting principles (cont'd)

Impact of application of the new standards that are not yet effective, amendments to the effective standards and new interpretations on the financial statements

Some of the new standards, interpretations of the standards and amendments to the standards were not effective as of 31 March 2007 and have not been applied in preparation of these financial statements:

- IFRS 8 *Operating Segments* (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has not yet completed its analysis of the impact of the new Standard.

- IFRS 12 *Service Concession Agreements* (effective from 1 January 2008). The interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRS 12 is not relevant to the Company's operations.

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.

4 Corrections of previous periods

The Company adjusted the accounting policy for multiple usage tare. The adjustments made were related to the previous periods; therefore, the Company has adjusted retained earnings as of 31 December 2004 and 31 December 2005. The related impact of these corrections of accounting policy on the result, shareholders’ equity and total assets as of 1 January 2006 amounted to LTL 1,482,159.

Notes

5 Segment reporting

The Company is engaged in production and distribution of alcoholic beverages, rectified and denaturised alcohol, which are three identifiable business segments of the Company.

Results by business segments for the IQ of 2007:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	11,495,227	519,118	17,780		12,032,125,
Segment result	5,649,871	140,816	7,669		5,798,356
Operating expenses					(5,061,082)
Other activities, net					30,180
Result form operating activities					767,454
Net financing costs					(170,103)
Result before tax					597,351
Income tax expenses					(109,547)
Net result					**487,804**
Segment assets					**64,394,729**
Total liabilities					**28,341,412**
Capital expenditure					**918,121**
Depreciation and amortisation					**802,914**

Notes

5 Segment reporting (cont'd)

Results by business segments for the IQ of 2006:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	14,038,977	246,558	19,290		14,304,825
Segment result	7,444,866	79,543	8,629		7,533,038
Operating expenses					(5,108,871)
Other activities, net					45,745
Result form operating activities					2,469,912
Net financing costs					(136,154)
Result before tax					2,333,758
Income tax expenses					(414,645)
Net result					**1,919,113**
Segment assets					**64,932,436**
Total liabilities					**31,203,222**
Capital expenditure					**320,391**
Depreciation and amortisation					**728,702**

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 – foreign and local 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 355.8 thousand in the IQ of 2007 (LTL 168.9 thousand in the IQ of 2006).

Notes

	In LTL	2007 IQ	2006 IQ
6	**Sales and distribution expenses**		
	Advertising expenses	1,435,673	895,458
	Marketing expenses	760,785	1,496,119
	Salaries and social security	204,423	144,032
	Transportation expenses	134,069	139,414
	Market research expenses	19,771	15,391
	Packaging expenses	18,524	26,863
	Other	12,615	12,286
	Total sales and distribution expenses	**2,585,860**	**2,729,563**

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

	In LTL	2007 IQ	2006 IQ
7	**Administrative expenses**		
	Salaries and social security	1,070,780	842,229
	Repairs and maintenance	145,501	175,796
	Amortisation of intangible assets	258,591	273,221
	Operating and other taxes	302,476	250,108
	Depreciation of property, plant and equipment	170,583	128,742
	Consulting and training expenses	73,018	141,903
	Maintenance of cargo vehicles	93,090	66,675
	Sponsorship and other	49,416	26,586
	Security expenses	74,318	65,257
	Impairment of construction in progress	(99,580)	45,255
	Communications and IT maintenance expenses	40,366	45,636
	Utilities	90,396	79,435
	Representation expenses	11,623	35,536
	Impairment of inventories	(3)	(39,736)
	Other	194,647	242,665
	Total administrative expenses	**2,475,222**	**2,379,308**

Notes

In LTL		2007 IQ	2006 IQ
8	**Personnel expenses**		
	Wages and salaries	1,432,576	1,184,437
	Social security contributions	456,408	368,206
	Total personnel expenses	**1,888,984**	**1,552,643**

Personnel expenses for IQ of 2007 and IQ of 2006 include change in accrued vacation compensations.

Personnel expenses for IQ of 2007 include wages and salaries for the management in the amount of LTL 132 thousand (LTL 86 thousand for IQ 2006).

As of 200 31 March 2007 237 employees were working in the Company (232 employees as of 31 March 2006).

In LTL		2007 IQ	2006 IQ
9	**Other income and expenses**		
	Sales of materials and spare parts	12,887	85,151
	Lease of premises	20,137	11,647
	Other income	9,594	19,432
	Total other income	42,618	116,230
	Cost of sales of materials and spare parts	915	67,994
	Other expenses	11,523	2,491
	Total other expenses	12,438	70,485
	Other operating income and expenses, net	**30,180**	**45,745**

Notes

In LTL	2007 IQ	2006 IQ
10 Financial income and expenses		
Interest income	5,319	23,236
Foreign exchange income	0	
Other income	131	
Total financial income	5,450	23,236
Interest on loans and lease liabilities	175,263	154,864
Foreign exchange loss	290	4,526
Other		
Total financial expenses	175,553	159,390
Financial income and expenses, net	**(170,103)**	**(136,154)**

In LTL	2007 IQ	2006 IQ
11 Corporate income tax expenses		
Current tax	73,842	399,088
Change in deferred income tax	35,705	15,557
Total income tax expenses	**109,547**	**414,645**

The reconciliation of the effective tax rate is as follows:

In LTL	2007 IQ		2006 IQ	
Profit before tax		597,351		2,333,758
Income tax using the effective tax rate	18.0%	107,523	19,0%	443,414
Written-off multiple usage tare			(0.7%)	(15,990)
Charity expenses	(0.4%)	(2,120)	(0.2%)	(4,328)
Other non-taxable income				
Written-off inventories			(0.3%)	(7,550)
Fines paid	0.3%	1,800	0.0%	279
Non-deductible representation expenses	0.0%	281	0.1%	1,782
Non-deductible value added tax	0.0%	241	0.0%	390
Other non-deductible expenses	1.5%	8,963		
Effect of change in tax rate	(1.2)%	(7,141)	(0.1)	(3,352)
	18.3%	**109,547**	**17.8%**	**414, 645**

Notes

12 Deferred tax

In LTL	2007 IQ Temporary differences	2007 IQ Deferred tax (15%)	2006 IQ Temporary differences	2006 IQ Deferred tax (15%)
Valuation allowances	2,411,081	361,662	2,789,654	418,447
Accrued expenses	165,501	24,825	127,456	19,119
Total deferred tax assets		386,487		437,566
Difference in depreciation of property, plant and equipment	(3,509,353)	(526,403)	(3,681,081)	(552,163)
Carrying value of non-current assets that are subject to investment relief	(1,222,325)	(183,348)	(1,539,915)	(230,987)
Difference in amortisation of intangible assets	(1,363,967)	(204,595)	(272,793)	(40,919)
Total deferred tax liability		(914,346)		(824,069)
Net deferred tax		**(527,859)**		**(386,503)**

The current profit tax rate for the period ended 31 March 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 as of 31 March 2007 and as of 31 March 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 IQ	2006 IQ
Deferred income tax asset (liability) as of 1 January	(492,154)	(370,946)
Change in deferred income tax	(35,705)	(15,557)
Deferred income tax liability as of 31 March	**(527,859)**	**(386,503)**

13 Current tax liabilities

In LTL	2007 IQ	2006 IQ
Net income tax asset (liability) as of 1January	(259,481)	(21,910)
Income tax for the period	(73,842)	(399,088)
Income tax paid		21,729
Net income tax liability as of 31 March	**(333,323)**	**(399,269)**

Notes

14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construction 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	0	48,598	89,890	22,138	0	141,258	301,884
Disposals	0	(29,650)	(59,796)	(7,125)	(308)	0	(96,879)
Reclassifications	0	3,540	10,000	750		(14,290)	0
Transfer from inventories	0	0	0	0	0	0	0
Cost as of 31 March 2006	14,631,287	12,312,536	1,229,882	2,322,931,	3,626,956	147,630	34,271,222
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	135,263	250,408	15,553	54,257	0	0	455,481
Impairment loss	0	0	0	0	45,255	0	45,255
Disposals	0	(29,641)	(59,795)	(7,123)	0	0	(96,559)
Reclassifications	0	0	0	0	0	0	0
Accumulated depreciation as of 31 March 2006	5,630,458	8,183,155	852,846,	1,656,876	407,295	0	16,730,630
Net book value as of 31 March 2006	**9,000,829**	**4,129,381**	**377,036**	**666,055**	**3,219,661**	**147,630**	**17,540,592**
Cost as of 1 January 2007	14,837,599	14,326,427	1,207,609	2,378,212,	3,635,421	131,014	36,525,282
Additions	0	286,396	0	83,913	232,622	285,399	888,331
Disposals	0	0	(5,500)	0	0	0	(5,500)
Reclassifications	1,175,506	75,441	0	5,000	(1,124,933)	(131,014)	0
Cost as of 31 March 2007	16,013,105	14,688,264	1,202,109	2,476,125	2,743,111	285,399	37,408,113
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 I quarter	137,677	312,922	33,275	60,449	0	0	544,323
Impairment loss	0	0	0	0	(99,580)	0	(99,580)
Disposals	0	0	(4,683)	0	0	0	(4,683)
Accumulated depreciation as of 31 March 2007	6,036,446	9,214,497	683,444	1,765,281	443,480	0	18,143,148
Net book value as of 31 March 2007	**9,976,659**	**5,473,767**	**518,665**	**710,844**	**2,299,631**	**285,399**	**19,264,965**

Construction in progress is related to the construction of premises for the production of soft drinks, which was suspended in 1994 because of the change of the Company's strategic plans. The related impairment loss is recognised on the basis of quarterly checks of the impairment.

Notes

14 Property, plant and equipment (cont'd)

Depreciation has been allocated as follows:

In LTL	31/03/2007	31/03/2006
Cost of sales	233,110	1,193,172
Cost of finished production	140,629	84,527
Administrative and other expenses	170,584	600,940
Total	**544,323**	**1,878,639**

15 Intangible non-current 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 I quarter	0	18,507	0	18,507
Disposals	0	0	0	0
Cost as of 31 March 2006	236,875	551,069	18,913,672	19,701,616
Accumulated amortisation as of 1 January 2006	199,204	379,356	1,260,911	1,839,471
Amortisation for I quarter	4,667	32,133	236,421	273,221
Disposals	0	0	0	0
Accumulated amortisation as of 31 March 2006	203,871	411,489	1,497,332,	2,112,693
Net book value as of 31 March 2006	**33,004**	**139,580**	**17,416,340,**	**17,588,924**
Cost as of 1 January 2007	214,515	447,889	18,913,672	19,576,076
Additions during I quarter	0	29,790	0	29,790
Disposals	0	0	0	0
Cost as of 31 March 2007	214,515	477,679	18,913,672	19,605,866
Accumulated amortisation as of 1 January 2007	194,768	335,919	2,206,595	2,737,282
Amortisation for I quarter	4,386	17,784	236,421	258,591
Disposals	0	0	0	0
Accumulated amortisation as of 31 March 2007	199,154	335,703	2,443,016	2,995,873
Net book value as of 31 March 2007	**15,361**	**123,976**	**16,470,656**	**16,609,993**

All amortisation expenses are included under operating expenses.

Notes

	In LTL	31/03/2007	31/03/2006
16	**Inventories**		
	Raw materials	6,334,655	5,934,478
	Finished production	1,262,934	969,727
	Work in progress	58,609	47,923
	Goods for resale	151,393	55,583
	Total inventories before write-down allowance	**7,807,591**	**7,007,711**
	Write-down allowance	(13,059)	(13,062)
	Total inventories after write-down allowance	**7,794,532**	**6,994,649**

	In LTL	31/03/2007	31/03/2006
17	**Prepayments and deferred expenses**		
	Prepayments to suppliers	661,082	756,840
	Deferred advertising expenses	640,258	657,880
	Deferred insurance and subscription	66,313	163,988
	Other	14,992	0
	Total prepayments and deferred expenses	**1,382,645**	**1,578,708**

	In LTL	31/03/2007	31/03/2006
18	**Trade receivables**		
	Trade receivables	18,835,527	29,155,088
	Impairment allowance for bad debts	(1,072,419)	(1,072,419)
	Net trade receivables	**17,763,108**	**28,082,669**

Notes

18 Trade receivables (cont'd)

Change in impairment of receivables:

In LTL	31/03/2007	31/03/2006
Impairment allowance for bad debts	(1,072,419)	(1,418,178)
Reverse of impairment allowance for bad debts	0	345,759
Impairment allowance for bad debts at the end of the period	**(1,072,419)**	**(1,072,419)**

19 Other receivables

In LTL	31/03/2007	31/03/2006
Prepayment to the Tax Inspectorate	173,119	172,481
Other receivables	21,260	35,334
Doubtful receivables	885,209	885,209
Total other receivables before write-down allowance	**1,079,588**	**1,093,024**
Write-down allowance	(885,209)	(885,209)
Total other receivables after write-down allowance	**194,379**	**207,815**

The prepayment to the Tax Inspectorate is a guarantee for payment of excise tax on exported products amounting to LTL 172,481 and overpayment of personal income tax amounting to LTL 638.

Change in impairment allowance of receivables was as follows:

In LTL	31/03/2007	31/03/2006
Impairment allowance for bad and other receivables	**(885,209)**	(4,515,209)
Reverse of impairment allowance for bad debts	0	3,630,000
Impairment allowance for bad and other receivables at the end of the period	**(885,209)**	**(885,209)**

Notes

	In LTL	31/03/2007	31/03/2006
20	**Cash and cash equivalents**		
	Cash at bank and in hand	977,882	384,747
	Total cash and cash equivalents	**977,882**	**384,747**

As of 31 December 2006, current and future cash inflows to the Bayerische Hypo-und Vereinsbank AG, Vilnius branch accounts are pledged to secure the 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 IQ	2006 IQ
Number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	487,804	1,919,113
Profit (loss) per share in LTL	**0.2**	**0.08**

The Company has no diluted potential shares or convertibles. The diluted earnings per share are the same as the basic earnings per share.

23 Interest bearing loans and borrowings

In LTL	31/03/2007	31/03/2006
Non-current liabilities		
Bank loans	10,213,382	11,064,498
Total non-current liabilities	**10,213,382**	**11,064,498**
Current liabilities		
Bank loans	3,405,207	3,404,461
Financial lease liabilities	0	0
Total current liabilities	**3,405,207**	**3,404,461**
Grand total	**13,618,589**	**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 5,000,000 – variable at the rate of 1 month's Vilibor + 1.6%	0				
Loan of EUR 4,930,000 (LTL 17,022,304) – variable at the rate of 3 months' EUR LIBOR + 1.9%	13,618,589	3,405,207	3,404,461	6,808,921	0
Total	**13,618,589**	**3,405,207**	**3,404,461**	**6,808,921**	**0**

The Company has a loan and overdraft issued by Bayerische Hypo-und Vereinsbank AG Vilnius branch. As of 31 March 2007, the effective interest rates of the Company's borrowings are 5.8% and 5.5% p.a. correspondingly. The fair value of the financial instruments does not differ materially from their carrying amounts as of 31 March 2007.

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	31/03/2007	31/03/2006
24 Other payables		
Payable excise tax	6,695,289	11,243,599
Payable VAT	2,080,543	3,208,273
Vacation reserve	697,463	640,103
Taxes payable	28,040	235,679
Accrued expenses	45,428	118,291
Other payables	421,886	307,478
Total other payables	**9,968,649**	**15,753,423**

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

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis.

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 fixed and variable interest rates related to EURIBOR and VILIBOR.

As of 31 March 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 March 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 company and ultimate parent company are as follows:

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

Other major related parties are as follows:

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
Darius Žaromskis	Shareholder

Sales to and purchases from related parties during the reporting periods ended 31 March 2007 and 31 March 2006 are as follows:

Company	Type of transaction	2007 IQ	2006 IQ
Purchases from:			
Belvedere group companies	Purchase of services	764,792	1,524,872
Belvedere group companies	Purchase of raw materials	90,085	1,410,032
Shareholder	Purchase of services	47,400	47,400
Parent company	Purchase of inventories	0	0
Ultimate parent company	Purchase of inventories	0	0
Total purchases		**902,277**	**2,982,304**

Notes

26 Related party transactions (cont'd)

Company	Type of transaction	2007 IQ	2006 IQ
Sales to:			
Belvedere group companies	Sales of production including excise tax	23,819,063	28,499,187
Parent company	Sales of production including excise tax	126,932	110,186
Belvedere group companies	Sales of services	16,863	11,953
Parent company	Other operating income	0	
Ultimate parent company	Sales of production including excise	0	
Total sales		**23,962,858**	**28,621,326**
Excise tax		16,520,307	19,547,067
Total sales net of excise tax		**7,442,551**	**9,074,259**

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

Company	31/03/2007	31/03/2006
Trade receivables		
From Belvedere group companies	10,975,109	14,337,477
From parent company	312,568	185,635
From ultimate parent company	0	0
Total trade receivables	**11,287,677**	**14,523,112**
Trade payables		
To Belvedere group companies	345,385	3,536,059
Total trade payables	**345,385**	**3,536,059**

Remuneration to the Company's management is enclosed in Note 8 to the Financial Statements.

All outstanding balances with these related parties are priced on arm's length basis.

Notes

27 Off-balance and other liabilities

As a security for the loan and overdraft facilities from Bayerische Hypo-und Vereinsbank AG, Vilnius branch, the following assets have been pledged by the Company:

In thou. LTL	31/03/2007	31/03/2006
Carrying amount of pledged buildings and structures	11,499	10,598
Carrying amount of pledged machinery and equipment	1,850	1,997
Carrying amount of pledged trademarks	16,471	16,707
Carrying amount of pledged inventories	7,795	6,995
Cash pledged to Bayerische Hypo-und Vereinsbank AG, Vilnius branch	911	350

Additionally, as of 31 March 2007, the Company has pledged trade receivables from UAB Belvedere Prekyba, UAB Aibės Logistika and UAB Palink. Trade receivables from these trade debtors amounted to LTL 12,700 thou. as of 31 March 2007.

As of 31 March 2007 cash in banks and cash inflows to the accounts of Vilnius branch of Bayerische Hypo-und Vereinsbank AG were pledged to secure the bank loan and overdraft.

As of 31 March 2007 Bayerische Hypo-und Vereinsbank AG, Vilnius branch had no issued guarantees to Customs for payment of import VAT and other related charges on behalf of AB Vilniaus Degtinė.

On 7 September 2006 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 7,100 thousand and is valid until 30 September 2007.

28 Legal claims

The Company is not involved into any litigation as a defendant.

29 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.

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.