



AKCINĖ BENDROVĖ

**GUBERNIJA, AB
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS OF 2014**

MAY, 2014

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COMPANY DETAILS

Gubernija, AB

Telephone: +370 41 591900

Telefax: +370 41 591911

Company code: 144715765

Registered at: Dvaro str.179, LT-76176 Siauliai, Lithuania

Board

Romualdas Dunauskas, valdybos pirmininkas
Lina Dunauskaite
Augustinas Radavicius
Sigitas Vilciauskas
Muradas Bakanas

Management

Vijoleta Dunauskiene, General director

Auditor

Baltijos auditas, UAB

Banks

SEB bankas, AB
Swedbank, AB
Siaulių bankas, AB

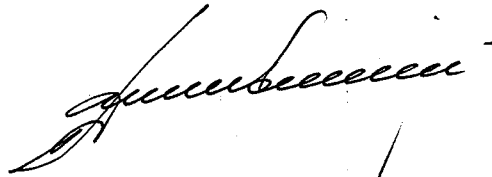


AKCINĖ BENDROVĖ

CONFIRMATION OF RESPONSIBLE PERSONS


Following 22 article of the the Law on Securities Market of the Respublic of Lithuania and Rules on Preperation and Submission of Periodic and Additional Information of the Lithuanian Securities Commision, we, the General Manager of the Gubernija, AB Vijoleta Dunauskiene and the Finance director of the Gubernija, AB Vygintas Buivys, hereby confirm that, to the best of our knowledge the unaudited interim Financial Statements for the three months of the year 2014 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flow of Gubernija, AB.

General Manager



Vijoleta Dunauskiene

Finance director



Vygintas Buivys

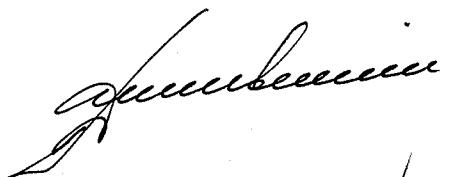
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29-05-2014

STATEMENT OF FINANCIAL POSITION (LTL thousand)

ASSETS	NOTES	2014.03.31	2013.12.31
LONG TERM ASSETS		29 551	30 031
INTANGIBLE ASSETS	1	13	16
TANGIBLE ASSETS	2	29 521	29 998
Land			
Buildings		18 093	18 330
Other tangible assets		11 428	11 668
INVESTMENTS PROPERTY	3	17	17
CURRENT ASSETS		8 687	8 613
INVENTORIES AND NOT COMPLETED WORKS	4	3 900	3 839
Inventories		3 492	3 436
Prepayments		408	403
Not completed works			
CURRENT RECEIVABLES	5	4 411	4 421
INVESTMENTS AND TERM DEPOSITS	6	288	288
CASH AND CASH EQUIVALENTS	7	87	63
TOTAL ASSETS		38 238	38 644


EQUITY AND LIABILITIES	NOTES	2014.03.31	2013.12.31
EQUITY	8	7 730	8 680
SHARE CAPITAL		16 130	16 130
REVALUATION RESERVE		10 952	11 138
OTHER RESERVES		0	0
RETAINED EARNINGS (LOSS)		(19 352)	(18 589)
LIABILITIES		30 507	29 964
NON CURRENT LIABILITIES		19 382	17 790
Financial liabilities	9	17 527	15 902
Obligations of the deferred tax	10	1 855	1 888
CURRENT LIABILITIES		11 125	12 174
Financial liabilities	9	3 770	4 167
Trade payables	11	3 892	3 957
Received prepayments	11	53	19
Taxes, salaries and social security	11	1 256	1 268
Other current obligations	11	2 153	2 763
TOTAL EQUITY AND LIABILITIES		38 238	38 644

General Manager



Vijoleta Dunauskiene

Finance Manager

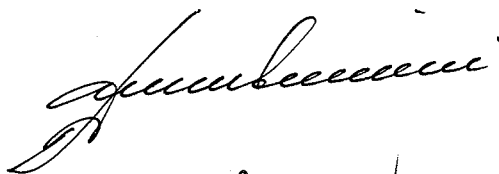


Vygintas Buivys

STATEMENT OF COMPREHENSIVE INCOME (LTL thousand)

Items	NOTES	2014-01-01 2014-03-31	2013-01-01 2013-03-31
INCOMES FROM SALES	12	8 292	8 122
OTHER ACTIVITY INCOMES FROM SALES		3	2
EXPENSES		(9 037)	(8 836)
Changes of production and work in progress		77	255
Materials	4	(3 323)	(3 600)
Related to employees		(1 554)	(1 502)
Amortization and depreciation	1.2	(633)	(699)
Other	13	(3 605)	(3 290)
FINANCIAL AND INVESTING ACTIVITIES	14	(241)	(148)
Income		2	7
Expenses		(243)	(154)
CURRENT YEAR PROFIT (LOSS) BEFORE TAXES		(983)	(859)
PROFIT TAX	10	33	43
PROFIT (LOSS) FROM CONTINUING OPERATIONS		(950)	(816)
 OTHER COMPREHENSIVE INCOMES			
<i>Items that will not be reclassified to profit or loss</i>			
Profit/loss from changes of Revaluation reserves	2	186	244
OTHER COMPREHENSIVE INCOMES LESS PROFIT TAX		186	244
 Profit (loss) for the one share (LTL)		-0.059	-0.051

General Manager



Vijoleta Dunauskiene

Finance Manager



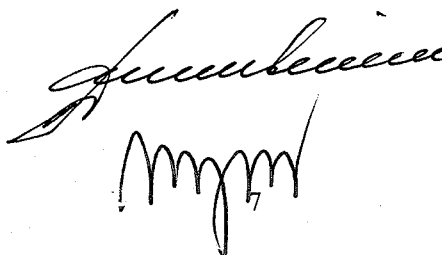
Vyginas Buivys

CASH FLOW STATEMENT (LTL thousand)

	NOTES	2014-01-01 2014-03-31	2013-01-01 2013-03-31
Operating activities:			
Profit(loss)		(950)	(816)
Corrections due to:			
Depreciation, amortization and devaluation	1.2	633	699
Alienation of long-term tangible and intangible assets			1
Elimination of financing and investing activity results:			
Expenditure of interests	14	189	141
Charges			
Other financing activity revenue		50	
Decrease (increase) in inventory	4	(55)	(97)
Decrease (increase) in advances received	4	(5)	(11)
Decrease (increase) in contracts in progress	4		
Decrease (increase) in trade receivables	5	7	(913)
Decrease (increase) in other amounts receivable	5	3	(1)
Increase (decrease) in long-term debts to suppliers and prepayments			
Increase (decrease) in short-term debts to suppliers and prepayments	11	(31)	763
Increase (decrease) of the deferred profit tax	10	(33)	(43)
Increase (decrease) in liabilities related to labour relations	11	(12)	53
Increase (decrease) in other amounts payable and liabilities	11	(609)	380
Elimination of non-cash items			
Net cash flows from the main activities		(812)	157
Cash flows from investing activities:			
Acquisition of non-current assets (excluding investments)	1.2	(154)	(39)
Transfer of non-current assets (excluding investments)			
Loans granted			
Loans recovered			
Net cash flows from investing activities		(154)	(39)
Cash flows from financing activities:			
Loans received	9	1 649	
Leasing financing received	9	76	
Loans repaid		(450)	(325)
Interest paid		(243)	(52)
Payments of lease (finance lease) liabilities		(44)	(11)
Net cash flows from financing activities		989	(389)
The effects of changes in foreign exchange rates on cash and cash equivalents balance			
Net increase (decrease) in cash flows		24	(271)
Cash and cash equivalents at the beginning of period		63	295
Cash and cash equivalents at the end of period		87	23

General Manager

Finance Manager



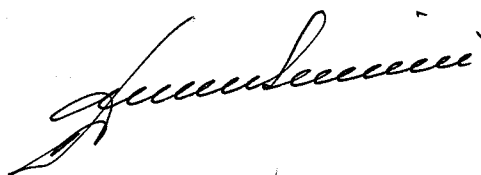
Vijoleta Dunauskiene

Vyginas Buivys

STATEMENT OF CHANGES IN EQUITY (LTL thousand)

	Notes	Share Capital	Revaluation Reserve	Retained Earnings (loss)	Total
1. Balance at 31.12.2012		16 130	10 628	(18 334)	8 424
2. Decrease in revaluation reserve due to depreciation or write-off of revalued assets	2		(244)	244	
4. Profit (loss)				(816)	(816)
5. Balance at 31.03.2013		16 130	10 384	(18 906)	7 607
6. Decrease in revaluation reserve due to depreciation or write-off of revalued assets	2		(607)	607	
7. Revaluation of the tangible fixed asset	2		1 361		1 361
8. Profit (loss)				(289)	(289)
9. Balance at 31.12.2013		16 130	11 138	(18 588)	8 680
10. Decrease in revaluation reserve due to depreciation or write-off of revalued assets	2		(186)	186	
11. Profit (loss)				(950)	(950)
12. Balance at 31.03.2014		16 130	10 952	(19 352)	7 730

General Manager



Vijoleta Dunauskiene

Finance Manager



Vyintas Buivys

THE DECLARATORY LETTER

GENERAL INFORMATION

Gubernija AB (hereinafter - the Company) was registered on May 5, 1993 in the registry of the legal entities. The code of the Company is 144715765. The manager of the registry is the national enterprise "Registry center".

The main activity of the Company is production and sales of beer, beer drinks and kvass in the local market, abroad, and specialty shops. The Company has 9 branded stories in Lithuania, Office and wholesale warehouse (Kalvarijų str. 204 B, Vilnius).

Traditional technologies are used in production of the beer and kvass in the company „Gubernija”, a natural method of fermentation is applied, non malt substances are not used.

Main shareholders at March 31, 2014:

Shareholder	The part of available authorized capital, %	Available part of votes, %
Vitas Tomkus	28.58	28.58
Romualdas Dunauskas	26.11	26.11
Javelin Finance,	10.87	10.87
Larisa Afanaseva	10.44	0
Respublikos spaustuve UAB	9.95	9.95
Takhir Shabaev	5.28	0
Sigitas Vilciauskas	0	15.72

On 31th March of the last 2013 year there were 186 employees, and on 31th March of the reporting year 2014 there were 186 employees.

The financial statements are announced on the webpage of the Company www.gubernija.lt.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements of Gubernija, AB have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The shareholders have the power to reject the financial statements prepared by the management and the right to request that new financial statements be issued.

Management does not prepare consolidated statements, as there are no subsidiaries.

THE DECLARATORY LETTER (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The financial statements are presented in Litas being the functional currency of the Company, and are prepared on the historical cost basis, except for land and buildings which are stated at revalued amount.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by management in the application of IFRSs adopted in the EU that have significant effect on the financial statements are discussed on page 19.

Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative, and the combined instrument is not measured at fair value though profit and loss.

Derivatives are recognized initially at fair value: attributable transaction costs are recognized in the statement of comprehensive income when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit and loss.

Foreign currency transactions

Transactions in foreign currencies are translated to Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the fair value was determined.

THE DECLARATORY LETTER (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired by the Company with a definite useful life are stated at cost less accumulated amortization and impairment losses.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives are 1 to 3 years.

Property, plant and equipment

Owned assets

Property, plant and equipment (except for land and buildings) are stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at a revalued amount less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Borrowing costs that are directly attributable to the acquisition, construction or production of an item of property, plant and equipment where substantial period of time is necessary to get ready the asset for its intended use, are capitalized as part of cost of the asset.

The revaluation reserve is reduced annually in proportion to the depreciation of the revaluation increase, by a transfer from revaluation reserve to retained earnings as the asset is depreciated with the balance being transferred upon ultimate disposal.

Cost of self-constructed property, plant and equipment includes costs related to materials and direct labor costs as well as related indirect costs.

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 and are depreciated over their expected useful lifetime.

Useful lives, residual amounts and depreciation methods are reviewed at each reporting date.

THE DECLARATORY LETTER (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets used by way of finance lease are recognized as assets of the company and are stated at the lower of their fair value in the beginning of the lease and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

Costs incurred when replacing a component part of an item of property, plant and equipment are capitalized only upon write-off of the carrying amount of the component and if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the component part can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

Depreciation

Depreciation (except for land which is not depreciated) is charged to profit or loss 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 25 - 90 years
- tanks 10-25 years
- machinery and equipment 7 - 25 years
- vehicles other property, plant and equipment 3 - 10 years

Financial instruments

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial instruments not at fair value through profit or loss, directly attributable transaction costs.

Investments in equity securities

Investments in equity securities are classified as available-for-sale and at initial recognition are stated at fair value plus the related direct costs. Subsequently the investments are revalued to fair value carrying the gain or loss on their revaluation through other comprehensive income to equity. Impairment losses, if any, are included in profit or loss if the fair value decline is considered to be prolonged or significant. When the investments are sold, the accrued gain or loss previously recognized under equity, is recognized in the statement of comprehensive income. If the fair value cannot be determined reliably, the investments in equity securities are stated at cost less impairment losses.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)***Investments in equity securities (continued)*

The fair value of financial instruments available for sale is their quoted price at the reporting date.

Financial instruments classified as available for sale are recognized / expensed by the Company on the date it commits to purchase / sell the instruments.

Other financial instruments

Trade receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months and are classified as loans and receivables. Trade receivables and other receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or origination of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method, less impairment, if any. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to carrying amount of the financial asset and liability. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortized cost. Short-term liabilities are not discounted.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call in banks, other short-term highly liquid investments.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment***Impairment of non-financial assets*

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

Intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognized through other comprehensive income to equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in equity is recognized in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Company's loans and receivables carried at amortized 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 initial recognition of these financial assets).

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. 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 amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of comprehensive income.

Impairment of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment (continued)***Reversals of impairment (continued)*

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 amortization, if no impairment loss had been recognized.

Acquisition of treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

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

Withholding taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognized. When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognized as financial expenses.

Employee benefits

Short-term employee benefits are recognized as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, bonuses, payable holidays and other benefits. There are no long-term employee benefits. All pension obligations are borne by the State.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. Each employee of the Company, leaving the work beyond retirement age, according to the laws of the Republic of Lithuania has to receive payment of 2 to 6 months salary. The company recognises the employee benefit obligation in the statement of financial status and reflects the present value of the payments on the balance sheet date.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue***Goods sold and services rendered*

Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Rental income is recognized in profit or loss on a straight-line basis over the term of the lease.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods exists or where substantial risks and rewards cannot be considered as transferred to the buyer.

Government grants

A government grant is recognized in the statement of financial position when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Government grants intended to compensate the Company for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grants that compensate the Company for the cost of an asset are recognized in the statement of comprehensive income as other operating income on a systematic basis over the useful life of the asset.

Costs*Operating lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Financial lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other operating income and charges

Other operating income and charges comprise gains and losses from sale of property, plant and equipment, and other items, which are not directly related to the primary activities of the Company.

Finance income and finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses. The interest expense component of finance lease payments is recognized in profit or loss using the effective interest rate method.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Costs (continued)***Finance income and finance costs (continued)*

Finance income comprises interest receivable on funds invested, dividend income and foreign exchange gains. Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized in profit or loss on the date the entity's right to receive payments is established.

Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for 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 investments in 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares. As there are no instruments that dilute equity, the basic and diluted earnings per share do not differ.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial risk management**

In its activities the Company is exposed to various financial risks: market risk (including currency risk, interest rate risk, fair value and price risks), credit risk and liquidity risk. General risk management policy establishment and supervision is the responsibility of the Board of directors. Risk management policy was set up in order to identify and analyze risks facing the Company, and determine risk acceptance limits. Risk management policy and processes are reviewed regularly considering changes in the markets and activities of the Company. The Company, applying learning and management standards and procedures, aims to establish constructive control environment where all employees clearly realize their functions and responsibilities. The Company's management pays the greatest attention to unpredictability of financial markets and aims to decrease its eventual impact on the Company's financial performance. From time to time the Company can use a derivative financial instrument in order to hedge certain risks.

a) Market risk

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

b) Currency risk

Currency risk relates to sales and receivables, purchases and payables, borrowings and borrowing costs denominated in currencies other than Litas and Euro (Litas is pegged to Euro at a fixed exchange rate of 3.4528 LTL / EUR). There are no other material monetary items denominated in currencies other than Litas and Euro.

c) Credit risk

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

The Company has established procedures ensuring that sales are made to customers having a proper credit history without exceeding the limit of credit risk set by management. The company has a significant concentration of credit risk on the basis of individual of customers.

d) Liquidity risk

A conservative management of liquidity risk enables the company to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities.

e) Interest rate risk

The Company's borrowings are subject to variable interest rates, related to LIBOR, VILIBOR or EURIBOR.

Capital management

The Board's policy is to keep the shareholders' equity over borrowings at the level to maintain the confidence of investors, creditors and the market and to fund business development opportunities in the future. The Board keeps track on the ratios of capital return and makes suggestions regarding proposed dividends.

THE DECLARATORY LETTER (continued)**SIGNIFICANT ACCOUNTING POLICIES (continued)****Capital management (continued)**

The Board's policy is to keep the shareholders' equity over borrowings at the level to maintain the confidence of investors, creditors and the market and to fund business development opportunities in the future. The Board keeps track on the ratios of capital return and makes suggestions regarding proposed dividends.

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2014 and 31 December 2013.

According to the Companies Law of the Republic of Lithuania, the Company's equity shall be not less than 50 % of its share capital.

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant accounting estimates and assumptions

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

Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed at each reporting date in order to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. With a purpose of impairment testing, the assets which, in the process of continuous use, generate cash and mainly are independent of generating cash inflows of other assets or asset groups (cash generating units) are classified to the smallest group.

The recoverable amount of property, plant and equipment 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.

THE DECLARATORY LETTER (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgments (continued)

Fair value of land and buildings

The fair values of land and buildings are assessed at each reporting date in order to determine whether there are any significant differences between fair values and carrying amounts in the financial statements. Fair values are assessed by reference to valuation reports or market assumptions reports received from external valuers.

Impairment of receivables

The Company reviews its receivables individually to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognized, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual debtor, e.g. adverse change in the payment status of the debtor, etc.

Useful lives of intangible assets and property, plant and equipment

Useful lives of the assets are reviewed at least annually. They are adjusted, if necessary, considering technological changes, expected future use of the asset and its present condition.

Judgments

The Company recognizes deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits is probable. Management's judgments are based on internal budgets and forecasts

NOTES TO THE FINANCIAL STATEMENTS

Note No 01 - The status of the intangible assets (LTL thousand)

Items	Patents, licenses and etc.	Software	Other intangible assets	Total
Residual value at 31.12.2012			17	17
Long term intangible assets in acquisition value				
at 31.12.2012	327	111	83	521
Acquisition of assets				
Disposals				
at 31.03.2013	327	111	83	521
Depreciation				
at 31.12.2012	327	111	66	504
- current year depreciation			2	2
at 31.03.2013	327	111	68	506
Residual value at 31.03.2013			15	15

THE DECLARATORY LETTER (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note No 01 - The status of the intangible assets (LTL thousand) (continued)

Items	Patents, licenses and etc.	Software	Other intangible assets	Total
Long term intangible assets in acquisition value				
at 31.12.2013	327	111	90	528
Acquisition of assets				
Disposals				
at 31.03.2014	327	111	90	528
Depreciation				
at 31.12.2013	327	111	74	513
- current year depreciation			2	2
at 31.03.2014	327	111	76	515
Residual value at 31.03.2014			13	13

Amortization of intangible assets is included in depreciation and amortization expenses. The cost of acquisition of intangible long-term assets which are fully depreciated but are still in use, on 31 March 2014 was LTL 457 thousand (in 2013 it was LTL 457 thousand).

Note No 02 - The status of the tangible assets (LTL thousand)

Items	Building s and construc tions	Machi nery and equip ments	Tanks	Vehicle	Comes fixed assets	Other tangible assets	Constru ction i progres s	Total
Residual value at 31.12.2012	16 975	6 135	5 961	463		451	710	30 695
a) Acquisition costs								
at 31.12.2012	14 191	28 269	7 153	3 046		7 439	710	60 807
- acquisition of assets		2			34	3		39
- cessions and disused assets (-)		(66)				(36)		(102)
- Transfers from one heading to another		26			(34)	8		
at 31.13.2013	14 191	28 230	7 153	3 046		7 415	710	60 744
b) Revaluation								
at 31-12-2012	13 299		2 985					16 284
- value increase (decrease) + / (-)								
at 31.13.2013	13 299		2 985					16 284
c) Depreciation								
at 31.12.2012	10 515	22 134	4 177	2 582		6 987		46 397
- current year depreciation	57	221	54	35		42		410
- depreciation of revalued assets	232		56					287
- acquired by third parties and write off assets depreciation (-)		(66)				(35)		(101)
at 31.03.2013	10 804	22 289	4 4 287	2 618		6 995		46 992
e) Residual value at 31.03.2013								
(a) + (b) - (c)	16 686	5 941	5 851	428		420	710	30 036

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 02 - The status of the tangible assets (LTL thousand) (continued)**

Items	Buildings and constructions	Machine ry and equipments	Tank s	Vehicle	Comes fixed assets	Other tangible assets	Constru ction i progres s	Total
Residual value at 31.12.2013	18 330	5 338	5 522	418		389		29 998
a) Acquisition costs								
at 31.12.2013	14 903	27 754	7 152	3 040		7 220		60 070
- acquisition of assets				110	34	10		154
- cessions and disused assets (-)		(54)				(91)		(145)
- Transfers from one heading to another		20		13	(34)	1		
at 31.03.2014	14 903	27 720	7 152	3 163		7 139		60 077
b) Revaluation								
at 31.12.2013	14 901		2 985					17 886
- value increase (decrease) + / (-)								
at 31.03.2014	14 901		2 985					17 886
c) Depreciation								
at 31.12.2013	11 473	22 416	4 615	2 621		6 831		47 957
- current year depreciation	745	204	54	35		45		412
- depreciation of revalued assets	163		55					219
- acquired by third parties and write off assets depreciation (-)		(54)				(91)		(145)
at 31.03.2014	11 710	22 566	4 725	2 657		6 784		48 442
e) Residual value at 31.03.2014								
(a) + (b) - (c)	18 093	5 154	5 413	506		355		29 521

Revaluation of long-term tangible assets

On 08-10-2004 with presence of independent appraiser, evaluation was carried out for the buildings, structures and other fixed assets. General value of revaluated tangible assets was LTL 37 976 thousand. Evaluation methods were chosen according to the assessment case and nature of the assets: comparative value, use income value and replacement value. Accounting recorded increase in the long-term tangible assets value by LTL 5 828 thousand, revaluation reserve of LTL 4 954 thousand was formed and deferred tax of LTL 874 thousand. In 2008 in order to account equipment the revaluation method was changed into the cost method, at the same time rejecting the equipment acquisition cost, revaluation reserve and deferred tax.

On 01-07-2008 with presence of independent appraiser, assessment of the buildings and structures was carried out. General value of revaluated tangible assets was LTL 20 174 thousand. Assessment methods used: comparative value and use income value. Building value increased by LTL 9 544 thousand, value of structures reduced by LTL 365 thousand. Due to the increase in value of buildings accounts registered increase in reserve by LTL 8 113 thousand and deferred tax liability LTL 1 432 thousand. Due to reduced value of structures revaluation reserve was reduced by LTL 83 thousand and deferred tax liabilities by LTL 15 thousand. Also due to reduced value of structures loss has been incurred amounting LTL 268 thousand.

THE DECLARATORY LETTER (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note No 02 - The status of the tangible assets (LTL thousand) (continued)

Revaluation of long-term tangible assets (continued)

On 30-12-2011 with presence of independent appraiser, assessment of the buildings and structures was carried out. General value of revaluated tangible assets was LTL 17 820 thousand. Assessment methods used: comparative value, replacement value and use income value. Due to the revaluation, value of buildings and structures increased by LTL 1 673 thousand. Accordingly, the revaluation reserve was formed LTL 1 422 thousand and deferred tax liabilities LTL 251 thousand.

In 2012, the company's management, taking into account that the company used containers made of stainless steel, the prices of which in the market change frequently and are slowly wearing, decided to pick out a separate category of long-term tangible assets: Containers and to account them at revaluated value.

On 27-12-2012 with presence of independent appraiser, revaluation of long-term tangible assets used in the company being containers was performed. To estimate the value the cost method was used. Revaluated assets value is LTL 5 961 thousand. Balance value of the assets, if they were not revaluated, would have been LTL 3 455 thousand. As a result of revaluation, the revaluation reserve was formed as LTL 2 537 thousand and deferred tax LTL 448 thousand.

On 27-06-2013 with presence of independent appraiser, revaluation of long-term tangible assets used in the company being some Buildings was performed. To estimate the value the cost method was used. Revaluated assets value is LTL 1 887 thousand. Balance value of the assets, if they were not revaluated, would have been LTL 1 347 thousand. As a result of revaluation, the revaluation reserve was formed as LTL 459 thousand and deferred tax LTL 81 thousand.

On 27-12-2013 with presence of independent appraiser, revaluation of long-term tangible assets used in the company being some Buildings was performed. To estimate the value the cost method was used. Revaluated assets value is LTL 1 860 thousand. Balance value of the assets, if they were not revaluated, would have been LTL 798 thousand. As a result of revaluation, the revaluation reserve was formed as LTL 903 thousand and deferred tax LTL 159 thousand.

If the company had accounted its building, structure and container assets groups using the acquisition cost method, their balance value on 31 March 2014 would be LTL 16 030 thousand (on 31-12-2013 – LTL 16 324 thousand).

Long-term tangible asset's useful life assessment

- Buildings 25 - 90 years
- Containers 10 - 25 years
- Machinery and equipment 7 - 25 years
- Vehicles and other equipment 3 - 10 years

Assets acquired through leasing

The company through leasing acquired commercial vehicles for a total acquisition cost of LTL 470 thousand. Outstanding value on 31-03-2014 is LTL 171 thousand.

THE DECLARATORY LETTER (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note No 02 - The status of the tangible assets (LTL thousand) (continued)

Long-term assets pledges

The Company has pledged long term assets for LTL 27 670 thousand in balance value:

Depreciation

4 877 units of tangible fixed assets depreciated to their residual value of LTL 1 with an acquisition cost of LTL 18 080 thousand are used in the company's activities.

Note No 03 - Financial assets (LTL thousand)

	<u>31-03-2014</u>	<u>31-12-2013</u>
Investment into daughter and associated enterprises	17	17

There were no changes of investment into daughter and associated enterprises during three months of the year 2014.

On 31 March, 2014 investment make:

- to VŠĮ "Žaliasis taškas" - LTL 15000.
- to VŠĮ Šiaulių universiteto mokslo ir technologijos parkas - LTL 2000.
- to UAB "Krepšinis ir mes." - LTL 100.

Investments in accounting of the Company shall be accounted for at net cost because securities of companies are not quoted and losses in respect of value would not have a significant impact on financial statement of the Company

Note No 04 – Stocks and Prepayments (LTL thousand)

Stocks are gained by the acquisition cost price. The Company buys resources only for its own use. The stock is written of applying the FIFO method of price valuation.

	<u>31-03-2014</u>	<u>31-12-2013</u>
Raw materials	2 242	2 317
Production in progress	686	668
Produced goods	504	444
Goods for reselling	61	8
Prepayments	408	403
Contracts in progress		
Total	3 900	3 840

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 04 – Stocks and Prepayments (LTL thousand) (continued)**

The main raw materials are malt, containers, packaging materials and other materials used in production.

	<u>31-03-2014</u>	<u>31-12-2013</u>
Inventories expenses	3 323	3 600

Advance payments: payments to suppliers for raw materials. These are the foreign malt and cans packaging suppliers (LTL 209 thousand), the deposit for STI for exportation of excisable goods (LTL 125 thousand), and other prepayments to suppliers (LTL 74 thousand).

The Company has pledged all stocks.

Note No 05 - Receivable sums in one year (LTL thousand)

	<u>31-03-2014</u>	<u>31-12-2013</u>
Customer receivables	4 409	4 416
Other amounts receivables	2	5
Total	<u>4 411</u>	<u>4 421</u>

Note No 06 – Investments and term deposits (LTL thousand)

	<u>31-03-2014</u>	<u>31-12-2013</u>
Investments and term deposits	288	288

This amount is the deposit account which is meant to validate paying the excise duty for the production which is taken from the warehouse.

Note No 07 – Cash (LTL thousand)

	<u>31-03-2014</u>	<u>31-12-2013</u>
Bank accounts	77	42
Cash on hand	2	
Cash on the way	8	21
Total	<u>87</u>	<u>63</u>

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 08 – The private capital**

The authorized capital of the Company on 31th March, 2014 is LTL 16 129 614. It is divided into 16 129 614 ordinary nominal shares, the value of every share is LTL 1. All shares are completely paid-up.

The equity of the Company on 31th March, 2013 was LTL 7 730 106 – 47,92 % of the authorized capital. The loss was incurred and Capital reduced in the reporting period due to the winter seasonal nature negative influence. The situation on the capital deficiency will be corrected during the second quarter.

The reserve of revaluation consists of the difference in reassessed value of the buildings, constructions and tanks. Depreciating the part of the reassessed assets, the reassessment reserve is being reduced and the unacknowledged profit of the reporting year is registered, and the used deferred profit tax appears in the in the report of the gross receipts. The unacknowledged profit 2014 three-month of the reporting cycle due to the depreciation of the reassessed part of the assets is LTL 185 790.

The Company does not have a compulsory reserve formed following the law since 31th March, 2014.

During reporting financial period Company incurred losses LTL 949 899.

Note No 09 – Loans and borrowings (LTL thousand)

	Note	31-12-2014	31-12-2013
Financial leasing for SWED bank leasing	a)	102	61
Financial leasing for Šiaulių bank leasing	b)	69	76
Laumžirgiai, UAB loan	c)	2 894	2 894
Respublikos investicija, UAB loan	d)	14 203	14 203
Accumulated taxes arrears	e)	3 600	2 504
Interest payable for the loans	f)	339	330
Other loans	g)	90	0
Total obligations		21 297	20 068
Minus: short-term part		(3 770)	(4 167)
Total long-term part		17 527	15 902

- Finance lease (leasing) from Swedbank Leasing, UAB. Final instalment payment date: 29-02-2016;
- Finance lease (leasing) from Siauliu bank leasing, UAB. Final instalment payment date: 07-08-2016;
- On 25-10-2011 Laumžirgiai, UAB took over the claim from O. Shabaeva towards the entire debt accruing according to order of 10-02-2010 of Siauliai District Court and order of the Court of Appeal of Lithuania of 24-01-2011. The loan has to be repaid till 31-10-2017 according to the signed repayment schedule;

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 09 – Loans and borrowings (LTL thousand) (continued)**

- d) On 25-04-2007 by agreement Ukio Bankas transferred the claim right to loan of Respublikos investicija, UAB. In 2013 November 12 signed debt payment arrangement agreement setting forth the obligation to size LTL 14 503 025,21, and approved of the debt repayment schedule by December 30-09-2022.
- e) The tax arrears under the 20-07-2012, 18-07-2013 and 19-02-2014 contracts. Returns provided by 10-06-2016.
- f) Interest payable according to loan agreement of Laumžirgiai, UAB and Respublikos investicija, UAB.
- g) Short term loans for the raw material purchasing.

All loans and other financial debts are denominated in Litas on 31 March 2014. Tax interest on loans is set by the Ministry of Finance of the Republic of Lithuania on a quarterly basis. Financial leasing interest rates are variable and are established in accordance with a 6-month EURIBOR or VILIBOR plus a fixed margin. Loan interest of Laumžirgiai, UAB and Respublikos investicija, UAB has been set at 4 per cent.

The company has pledged for the loan its long-term assets with balance value on 31-03-2014 being LTL 27 670 thousand (in 2013 LTL 28 166 thousand), all stocks, 19 trademarks, cash in banks SEB and SWEDBANKAS, land lease law.

Note No. 10 - Deferred tax liabilities (LTL thousand)

Deferred tax assets and liabilities, calculated at a 15 per cent rate are attributed to long-term liabilities:

	<u>31-03-2014</u>	<u>31-12-2013</u>
Deferred tax liabilities	1 855	1 888
Long term liabilities	19 382	17 790

Changes in temporary differences during the year can be represented as follows:

	<u>01-01-2014</u>	<u>Recognized in profit or loss</u>	<u>Recognized in equity</u>	<u>31-03-2014</u>
Deferred tax liabilities	1 888	(33)		1 855

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 11 – Current liabilities (LTL thousand)**

	<u>31-03-2014</u>	<u>31-12-2013</u>
Trade loans	3 892	3 957
Prepayments received	53	19
Liabilities related with labour relations	1 256	1 268
Other current liabilities	2 153	2 763
Total	<u>7 354</u>	<u>8 007</u>

Note No 12 - Business segment (LTL thousand)

The company has only one operating segment, being the production of beer and kvass.

	<u>31-03-2014</u>	<u>31-03-2013</u>
Lithuanian market	7 208	5 979
Export	1 083	2 143
Total	<u>8 292</u>	<u>8 122</u>

All company owned long-term tangible assets are located in the territory of the Republic of Lithuania.

Sale distribution of the Company by geographical regions is described in the Table below.

	<u>31-03-2014</u>	<u>31-03-2013</u>
Lthuania	86.93%	73.61%
Europe Union	9.94%	7.15%
East Europe	0.23%	0.13%
Africa states	1.94%	18.49%
USA, Canada	0.96%	0.61%

Clients in case of whom sales constituted up over 10% of the total scope of sales are provided in the Table below.

	<u>31-03-2014</u>	<u>31-03-2013</u>
SANITEX, UAB	21.60%	17.37%
MAXIMA LT, UAB	14.23%	9.02%
RIVONA UAB	13.85%	10.42%

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 13 - Other expenses (LTL thousand)**

	31-03-2014	31-03-2013
Excise duty	1 871	1 464
Cost of sales	635	676
Energetics	759	822
Maintenance and operating costs incurred for fixed assets	30	52
Cost of premises lease	34	36
Cost of economic activities	27	30
Other costs	249	210
	3 605	3 290

Note No 14 - Results from financial and investment activities (LTL thousand)

	31-03-2014	31-03-2013
a) Incomes from financial and investment activities	2	7
- other incomes	1	1
- the positive influence of the currency Exchange rate	1	6
b) Expenses of the financial and investment activities	243	154
- expenses on interest	189	141
- the negative influence of the currency exchange rate	4	3
- expenses on fines	50	10

Note No 15 - Contracts with associated parties

The shares of the Company belong to different shareholders, so one party has no possibilities to control another party or make significant influence on the other party making financial and activity decisions.

Note No 16 – Financial risk management**Credit Risk**

Credit risk refers to risk that the Company will incur losses in case the client or other party fails in implementing assumed liabilities and which is usually associated with accounts receivable.

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 16 – Financial risk management (continued)*****Trade and Other Accounts Receivable***

The Company controls credit risk by setting credit conditions and market analysis procedures. The credit term applicable to sales is from 15 to 60 days. Casual clients and export buyers from risky markets must pay in advance.

In 2014 three months approximately 60 % of the Company's products are bought by the major shopping centres in Lithuania, 15 % of the products is exported and approximately 25 % of the products are bought by small wholesalers and retailers.

Trade payables of the Company are not covered by insurance, however, effective management of credit limits and payment terms enable to minimise this risk.

Surety

The Company has not issued any sureties.

Liquidity Risk

The Company's policy is to maintain a sufficient flow of money and money equivalents so that it would be able to cover the operating expenses, including servicing of financial obligations. This policy does not cover management of effects of extraordinary circumstances, such as natural disasters, which cannot be predicted under normal circumstances. The Company continuously negotiates with banks and other financiers for financing of the Company's activities.

Terms for contractual financial liabilities, including interest payments, are provided below:

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	More than 1 year
31-03-2014					
Loans and borrowings	21 297	21 961	3 138	1 705	17 118
Trade payables	3 892	3 892	3 892		
Total	25 189	25 853	7 030	1 705	17 118

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	More than 1 year
31-12-2013					
Loans and borrowings	20 068	20 795	1 846	3 027	15 901
Trade payables	3 957	3 957	3 957		
Total	24 025	24 752	5 803	3 027	15 901

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 16 Liquidity Risk (continued)**

Interest payments for loans and financial debts are calculated for the period of one year.

Liquidity risk remains high due to lack of working capital. On 31 March 2014 it was LTL 2 439 thousand (On 31 December 2013 - LTL 3 561 thousand). The management of the Company in order to reduce the negative impact of this value, continuously negotiates with suppliers for credit terms, with customers – for acceleration of payment, with banks and other potential investors for working capital financing options. Management of the Company is able to manage this risk. That prove that this rate in 2012-12-31 was LTL 16 568 thousand.

Market Risk***Currency Risk***

Financial currency of the Company is the Litas. The Company is exposed to currency risk when purchasing or borrowing as well as when selling and managing accounts receivable in cases when they are denominated in a currency other than Litas. The risks associated with transactions denominated in Euros are considered to be insignificant because the Litas is pegged to the Euro at a fixed rate: 1 Euro = 3.4528 Litas. This peg of the Litas and the Euro could change, if the Government changed the macroeconomic policy.

Tax interest on loans is set by the Ministry of Finance of the Republic of Lithuania on a quarterly basis. Financial leasing interest rates are variable and are established in accordance with a 6-month EURIBOR or VILIBOR plus a fixed margin. Loan interest of Laumžirgiai, UAB and Respublikos investicija, UAB has been set at 4 per cent. Debt instruments with a variable interest rate are insignificant in comparison to all the financial liabilities, therefore, the Company was not using any financial instruments as on 31 March 2014 in order to protect itself from cash flow risk associated with debt instruments with variable interest rate or price risk associated with debt instruments with fixed interest rate.

Operational Risk

Operational risk is associated with direct or indirect losses arising from a variety of reasons determined by business procedures of the Company, personnel, technologies, infrastructure and external factors (except for credit, market, and liquidity risks). These factors are legal and mandatory requirements as well as universally accepted standards of company functioning. Operational risks arise from all activities of the Company.

The management of the Company is in charge for establishment and introduction of operational risk control system. This responsibility is based on the following operational risk management standards:

- The Company has a system for approval of the transactions carried out at the Company when primary documents supporting the transaction must pass several approval and control stages before entering them into accounting management system. In this way implementation control of an economic transaction can be ensured in all stages.

THE DECLARATORY LETTER (continued)**NOTES TO THE FINANCIAL STATEMENTS (continued)****Note No 16 Liquidity Risk (continued)****Operational Risk (continued)**

- products licensed and restricted under legislations of the Republic of Lithuania. In case of changes in legislations in this field, the changes have a direct impact on activities of the Company, sale of products, they influence performance of the Company. Failure to adjust to new requirements established by legislations or decisions governing production and trade of alcoholic beverages (in respect of quality, labelling, containers) in a timely manner can limit production temporarily, and this can affect activities of the Company and influence business perspectives, cause unexpected expenses necessary for implementation of certain liabilities or payment of fines.
- The management of the Company continuously observes and assesses risks associated with activities and applies preventive measures enabling control of these risks.
- The Company has adopted internal rules of procedure, compliance thereof is checked periodically.

Alcohol products sold in Lithuania are subject to excise tax. Changes in excise tax rates would have a direct impact on the price of the products being sold by the Company and can have negative effects on the demand of the products in the local market. In order to reduce the risk of state regulation, the management of the Company seeks to increase the weight of non-alcoholic beverages which are not subject to excise tax in the overall volume of the products being sold.

Financial Instruments: the Fair Value and Risk Management

The Company does not take any measures for management of the risks associated with changes in the fair value of these instruments. All the other financial assets and liabilities of the Company are not measured at the fair value, and amortized net cost of financial liabilities in terms of book value is approximate to the fair value thereof.

Capital Management

The policy of the management of the Company is to maintain as big part of owner's equity as possible, in comparison to borrowed funds, and capital return in order to maintain trust of investors, creditors, and the market and to maintain future development of the activities. Capital management policy of the Company has not changed during the accounting year.

The Company has undertaken to maintain the owner's equity at a level exceeding 50% of the share capital as required by Company Law of the Republic of Lithuania. 31 March of 2014 due the winter season negative impact own equity and share capital ratio fell to 47.92 percent. The Company's management expect to rectify situation by earning profit in the coming three business months until 30-06-2014.

THE DECLARATORY LETTER (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note No 17 - Other significant information

We received the 19 th of February, 2014 loan agreement signed with the State Tax Inspectorate under the Ministry of Finance, deferring payment of the tax arrears amounting LTL 1 559 471 in equal instalments till 10-06-2016.

Note No 18 - Information about management

On 25 April, 2014 an ordinary shareholders' meeting took place where the financial accountability for the year 2013 was approved and the decision to give the profit of the year 2013 to cover the loss of the last year was made.

Note No 19 - Subsequent events

No subsequent events have occurred after the end of the financial year which could have material influence on the financial statements as at 31 March 2014.

BUSINESS CONTINUITY

The three month financial accountability for 31 March, 2014 is prepared on the base of the business continuity.