



Securities Commission of the Republic of Lithuania

21 March 2008

## CONFIRMATION OF RESPONSIBLE PERSONS

The confirmation of responsible persons regarding audited annual financial statements and annual report assessed by the auditors of AB Stumbras as of 31 December 2007 is provided following the Law of Republic of Lithuania on securities, dated 18 January 2007 and Lithuanian Securities Commission resolution No.1K-3 on the rules of disclosure and submission of periodic and additional information, dated 23 February 2007.

We, responsible persons, hereby confirm that to the best of our knowledge, provided annual audited financial statements for the year 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of Stumbras AB. We also confirm that Company's annual report includes a fair review of the development and performance of the business and position of the company in relation to the description of main risks and contingencies faced thereby.

General Manager

Česlovas Matulevičius

Chief Financial Officer

Voldemaras Kallo

**STUMBRAS AB**  
**FINANCIAL STATEMENTS, ANNUAL AND INDEPENDENT**  
**AUDITOR'S REPORTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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*Translation note*

*This version of our report/the accompanying documents is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

**INDEPENDENT AUDITORS REPORT**

To the Shareholders of Stumbras AB

**Report on the Financial Statements**

We have audited the accompanying financial statements of Stumbras AB (the "Company") set out in pages 5 – 35 which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use in EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Stumbras AB as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in EU.

**Report on other legal and regulatory requirements**

Furthermore, we have read the Annual Report for the year ended 31 December 2007 set out on pages 36 – 74 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2007.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
21 March 2008



Rasa Radzevičienė  
Auditor's Certificate No.000377

**STUMBRAS AB  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

(all tabular amounts are in LTL'000 unless otherwise stated)

**Balance sheet**

	Note	As at 31 December	
		2007	2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	35,166	25,113
Intangible assets	8	951	563
Available-for-sale financial assets		15	15
Non-current receivables and deferred charges	10	58	78
		<u>36,190</u>	<u>25,769</u>
<b>Current assets</b>			
Inventories	11	15,164	13,242
Trade and other receivables and prepayments	12	83,699	46,553
Prepaid current income tax		-	-
Cash and cash equivalents	13	22,228	39,157
		<u>121,091</u>	<u>98,952</u>
Non-current assets classified as held for sale	23	-	162
		<u>121,091</u>	<u>99,114</u>
<b>Total assets</b>		<u>157,281</u>	<u>124,883</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	14	40,000	40,000
Reserves	15	1,985	4,990
Retained earnings		34,464	20,692
<b>Total equity</b>		<u>76,449</u>	<u>65,682</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	17	12,691	-
Deferred income tax liabilities	9	78	56
		<u>12,769</u>	<u>56</u>
<b>Current liabilities</b>			
Trade and other payables	16	56,568	33,749
Borrowings	17	4,231	21,923
Current income tax liabilities		5,546	3,473
Provisions for other liabilities and charges	18	1,718	-
		<u>68,063</u>	<u>59,145</u>
<b>Total liabilities</b>		<u>80,832</u>	<u>59,201</u>
<b>Total equity and liabilities</b>		<u>157,281</u>	<u>124,883</u>

The General Director and the Finance Director approved the financial statements on pages 5 to 35 on 21 March 2008

Česlovas Matulevičius  
General Director

Voldemaras Kallo  
Finance Director

The notes on pages 9 to 35 are an integral part of these financial statements

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(all tabular amounts are in LTL'000 unless otherwise stated)

**Income statement**

	Note	Year ended 31 December	
		2007	2006
<b>Continuing operations:</b>			
Sales	6	168,511	101,943,
Cost of sales	19	(85,605)	(52,123)
<b>Gross profit</b>		82,906	49,820
Other gains (losses)-net		(49)	(35)
Selling and marketing costs	19	(15,065)	(9,751)
Administrative expenses	19	(27,424)	(17,040)
Other income	20	1,713	1,839
Other expenses	19	(328)	(885)
<b>Operating profit</b>		41,753	23,948
Finance income	21	365	190
Finance costs	21	(1,033)	(984)
<b>Profit before income tax</b>		41,085	23,154
Income tax expense	22	(8,318)	(4,631)
Profit for the year from continuing operations		32,767	18,523
<b>Discontinued operations:</b>			
Profit/(Loss) for the year from discontinued operations	23	-	1,363
<b>Profit for the year</b>		32,767	19,886
Basic and diluted Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in LTL per share)	24	0.82	0.47
Basic and diluted earnings per share for profit/ (loss) from discontinued operations attributable to the equity holders of the Company during the year (expressed in LTL per share)	24	-	0.03

The notes on pages 9 to 35 are an integral part of these financial statements.

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**Statement of changes in equity**

	Note	Ordinary shares	Reserves	Retained earnings	Total equity
<b>Balance at 1 January 2006</b>		39 685	-	23 655	63 340
Profit for the year		-	-	19 886	19 886
<b>Total recognised income for 2006</b>		39 685	-	43 541	83 226
Issue of share capital	14	315	-	-	315
Transferred to legal reserve	15	-	990	( 990)	-
Transferred to reserves	15	-	4,000	(4,000)	-
Dividend relating to 2005		-	-	(17,859)	(17,859)
<b>Balance at 31 December 2006</b>		40,000	4,990	20,692	65,682
<b>Balance at 1 January 2007</b>		40,000	4,990	20,692	65,682
Profit for the year		-	-	32,767	32,767
<b>Total recognised income for 2007</b>		40,000	4,990	53,459	98,449
Transferred to legal reserve	15	-	995	(995)	-
Transferred from reserves	15	-	(4,000)	4,000	-
Dividend relating to 2006	25	-	-	(22,000)	(22,000)
<b>Balance at 31 December 2007</b>		40,000	1,985	34,464	76,449

The notes on pages 9 to 35 are an integral part of these financial statements.



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**Cash flow statement**

	Note	Year ended 31 December	
		2007	2006
<b>Cash flows from operating activities</b>			
Cash generated from operations	26	32,752	19,338
Interest received		888	3,465
Interest paid		(1,033)	(984)
Income tax paid		(6,224)	(822)
Net cash generated from operating activities		26,383	20,997
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	7	(15,923)	(6,400)
Proceeds from sale of property, plant and equipment	26	248	503
Purchases of intangible assets	8	(652)	(248)
Loans granted to related parties		(50,100)	(15,000)
Loan repayments received from related parties		50,100	48,399
Net cash used in/generated from investing activities		(16,327)	27,254
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		-	315
Repayments of borrowings		(5,000)	(4,231)
Dividends paid to the Company's shareholders		(21,985)	(17,852)
Net cash used in financing activities		(26,985)	(21,768)
<b>Net (decrease)/increase in cash, cash equivalents</b>			
Cash and cash equivalents at beginning of period	13	39,157	12,674
<b>Cash and cash equivalents at end of period</b>	13	22,228	39,157

The notes on pages 9 to 35 are an integral part of these financial statements.

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## **Notes to the financial statements**

### **1. General information**

Stumbras AB (the Company) was registered as a Lithuanian Public Company under the laws of the Republic of Lithuania on 17 December 1990. The Company's code 132082782. The shares of the Company are listed on the Current List of the National Stock Exchange. The shareholders of the Company are:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Mineraliniai vandenys UAB	93.30 per cent	98.35 per cent
Other	6.70 per cent	1.65 per cent

The ultimate parent of the Company is Koncernas MG Baltic incorporated in Lithuania. Mr. Darius Juozas Mockus is the 100% owner of Koncernas MG Baltic.

The Company is incorporated and domiciled in Kaunas. The address of its registered office is as follows:

K.Būgos 7  
LT-44355 Kaunas,  
Lithuania

The Company is involved in production and trade of strong alcohol drinks.

The number of employees as at 31 December 2007 amounted to 364 (31 December 2006: 299).

As at 31 December 2004 the Company had production plants in the following Lithuanian cities: Kaunas, Antanavas, Balbieriškis and Šilutė. In December 2005 the Company demerged its operations by continuing production of strong alcohol beverages as Stumbras AB in Kaunas and establishing new company Biofuture AB for the production of non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol in Šilutė. The demerger was achieved by means of dividend in specie of the shares in the entity that is disposed of to the Company's existing shareholders. All Company's shares with 4 LTL nominal value each were exchanged to the same quantity of Biofuture AB shares with 3 LTL nominal value each. Company's shareholders also retained the same quantity of Company's shares with 1 LTL nominal value each.

### **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of preparation**

These financial statements of Stumbras AB have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

These financial statements have been prepared under the historical cost convention as modified by available-for sale financial assets.

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**2.1 Basis of preparation (continued)**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

*(a) Standards, amendments to standards and interpretations effective in 2007:*

IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after January 2007), and the complementary Amendments to IAS 1, Presentation of Financial Statements—Capital disclosure were adopted by the Company in 2007. The IFRS 7 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

*(b) Standards, amendments to standards and interpretations effective in 2007, but not relevant to the Company's operations:*

The following standards, their amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Company's operations:

- IFRS 4 Insurance Contracts.
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

*(c) Standards, amendments to standards and interpretations that have been issued but are not effective for 2007 and have not been early adopted:*

- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The Company will apply this standard from 1 January 2009, but it is not expected to have significant effect on the Company's financial statements.
- IAS 23, (revised) Borrowing Costs (effective from 1 January 2009). The Company will apply IAS 23 from 1 January 2009, current accounting policy related to borrowing costs will be changed.
- IAS 27, Consolidated and Separate Financial Statements (revised in January 2008 and effective for annual periods beginning on or after 1 July 2009). Management believes that this standard is not relevant for the Company's operations.
- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). Management believes that this standard is not relevant for the Company's operations.
- IFRS 3, Business Combinations (revised in January 2008 and applied to business combinations acquired in the first annual period beginning on or after 1 July 2009). Management believes that this standard is not relevant for the Company's operations.
- Vesting Conditions and Cancellations – Amendment to IFRS 2 Share-based Payment (issued in January 2008, effective for annual periods beginning on or after 1 January 2008). Management believes that this standard is not relevant for the Company's operations.
- IFRS 8, Operating Segments (effective from 1 January 2009). Management believes that this standard is not relevant for the Company's operations.
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). Management believes that this interpretation is not relevant for the Company's operations.
- IFRIC 12, Service Concession Arrangements (effective from 1 January 2007). Management believes that this interpretation is not relevant for the Company's operations.
- IFRIC 13, Customer Loyalty Programmes (effective for annual period beginning on or after 1 July 2008). This interpretation is not relevant to the Company.
- IFRIC 14, IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirement and their Interaction (effective for annual periods beginning on or after 1 January 2008). Management believes that this interpretation is not relevant for the Company's operations.

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IFRIC 12, 13, 14 and amended IAS 1, IAS 23, IAS 27, IAS 32 as well as amended IFRS 2 and revised IFRS 3 have not been yet endorsed by the EU.

## **2.2 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

## **2.3 Foreign currency translation**

### *(a) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in litas (LTL), which is the Company's functional and presentation currency.

From 2 February 2002 the exchange rate of the Litass has been pegged to the euro at a rate of LTL 3.4528 = EUR 1.

### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## **2.4 Property, plant and equipment**

Property, plant and equipment is stated at cost less subsequent depreciation and impairment. Land is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

– Buildings	15 - 20 years
– Plant and machinery	5 - 10 years
– Vehicles	6 - 10 years
– Other property, plant and equipment	3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually at each year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

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## **2.5 Intangible assets**

### *(a) Patents and licences*

Patents and licences are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation less impairment. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives (3 years).

### *(b) Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

## **2.6 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.7 Financial assets**

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and whether the investment is quoted in an active market. Management determines the classification of its financial assets at initial recognition.

### *(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and deferred charges in the balance sheet. Loans and receivables are included as trade and other receivables and prepayments in the balance sheet (see Note 2.9).

### *(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the balance sheet date in which case they are included in current assets.

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## **2.7 Financial assets (continued)**

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in income statement. Impairment testing of trade receivables is described in Note 2.9.

## **2.8 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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### **2.9 Trade receivables**

Trade receivables are recognised initially at fair value of the amount receivable and subsequently measured at amortised cost using the effective interest method. Amortised cost is the amount at which the receivable was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

### **2.10 Non-current assets classified as held for sale**

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

### **2.11 Cash and cash equivalents**

For the purposes of the cash flow statement cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **2.12 Share capital**

Ordinary shares are classified as equity.

### **2.13 Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **2.14 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### **2.15 Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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## **2.16 Employee benefits**

### *(a) Social security contributions*

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

### *(b) Termination benefits*

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. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

## **2.17 Provisions**

Provisions for legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## **2.18 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, excise tax, rebates and discounts. Excise tax is calculated based on the quantities of pure ethyl alcohol sold. Revenue is recognised as follows:

### *(a) Sales of goods*

Sales of goods are recognised when an entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

### *(b) Sales of services*

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### *(c) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.



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**2.19 Leases**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made or received under operating leases are charged/credited to the income statement on a straight-line basis over the period of the lease.

**2.20 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

**2.21 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Non-monetary government grants are recognised at their nominal amount.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

**3. Financial risk management**

**3.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the management. Written principles for overall risk management are not prepared.

**Financial instruments by category**

The accounting policies for financial instruments have been applied to the line items below:

	31 December 2007			31 December 2006		
	Loans and receivables	Available-for-sale	Total	Loans and receivables	Available-for-sale	Total
<b>Assets as per balance sheet</b>						
Available-for-sale financial assets	-	15	15	-	15	15
Trade and other receivables	79,980	-	79,980	44,687	-	44,687
Cash and cash equivalents	22,228	-	22,228	39,157	-	39,157
	102,208	15	102,223	83,844	15	83,859

	31 December 2007		31 December 2006	
	Other financial liabilities	Total	Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>				
Borrowings	16,922	16,922	21,923	21,923
Trade and other payables	23,109	23,109	14,231	23,109
	40,031	40,031	36,154	40,031

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**3.1 Financial risk factors (continued)**

*(a) Market risk*

(i) Foreign exchange risk

The Company operates internationally, however, foreign exchange risk is not considered to be significant as only a few purchase and sales agreements are carried out in such foreign currencies as US dollars, UK pounds, Russian roubles and Polish zloty. Purchases and sales carried out in euros do not expose the Company to foreign exchange risk as Litas has been pegged to the euro at a fixed rate.

(ii) Price risk

The Company is not exposed to financial instruments price risk as there are no significant financial instruments that would be exposed to such risk.

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During 2007 and 2006, the Company's borrowings at variable rate were denominated in euros.

The Company annually analyses its interest rate exposure. The Company calculates impact on profit of a defined interest rate shift considering outstanding borrowings as at the year end and interest rate review periods.

Based on the simulations performed, the impact on profit of a 0.5 per cent shift would be a maximum increase or decrease of LTL 11 thousand (2006: LTL 14 thousand) respectively. That is mainly influenced by higher/lower interest expense on floating rate borrowings.

Term deposits at a fixed rates do not expose the Company with fair value interest rate risk as term deposits as at 31 December 2007 and 2006 were short-term with the maturity of 4 days.

*(b) Credit risk*

Credit risk arises from cash and cash equivalents as well as from credit exposures to trade customers, including outstanding receivables.

(i) Risk of concentration

Risk of concentration is related to trade receivables.

The table below shows credit risk concentration

	<u>2007</u>	<u>2006</u>
Trade receivables from related parties (note 12)	28,560	17,194
Other trade receivables (note 12)	51,094	27,236
	<u>79,654</u>	<u>44,430</u>

(ii) Maximum exposure of credit risk

The table below summarizes the Company's credit risk exposures relating to on-balance sheet items.

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	22,228	39,157
Trade and other receivables and prepayments	83,699	46,553
Non-current receivables and deferred charges	58	78
	<u>105,985</u>	<u>85,788</u>

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**3.1 Financial risk factors (continued)**

(iii) Credit quality of financial assets

The Company selects as partners only experienced international financial institutions. Conservative credit risk management practise implemented by the Company and being a member of larger group of companies allows to achieve optimal solutions with those Lithuanian banks that have best credit ratings.

Trade customers of the Company are only large, having good reputation and history Lithuanian, Latvian, Estonian and Polish trade supermarkets whose credit abilities are well known and monitored by the Company. Credit quality of trade customers is assessed taking into accounts its financial position, past experience and other factors, using various information sources (media, specialised internet sites, announcements of other market participants etc.). For sales to foreign customers the Company uses various credit risk minimisation procedures such as letters of credit. Receivables from trade customers are regularly monitored by the Company's management.

The table below shows the balance of the ten major trade customers at the balance sheet date.

	<b>2007</b>	<b>2006</b>
Customer A	28,550	16,496
Customer B	17,728	6,156
Customer C	16,134	6,246
Customer D	727	403
Customer E	6,394	4,706
Customer F	4,847	3,218
Customer G	1,489	989
Customer H	1,706	509
Customer J	10	672
Customer K	339	277

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (these are not available) or to historical information about their default rates.

(i) Trade receivables-trade customers without external credit rating

	<b>2007</b>	<b>2006</b>
Group 1	79,335	39,209
Group 2	319	5,221
	<u>79,654</u>	<u>44,430</u>

Group 1 – existing trade customers (more than 6 months) with no defaults in the past.

Group 2 – existing trade customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(ii) Cash and cash equivalents in banks (assessed in accordance with long-term borrowing ratings\*)

	<b>2007</b>	<b>2006</b>
A	5,079	2,482
A+	17,142	6,675
AA-	7	30,000
	<u>22,228</u>	<u>39,157</u>

\*- external credit ratings set by international Fitch Ratings agency.

None of the financial assets that are fully performing has been renegotiated in the last year.

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**3.1 Financial risk factors (continued)**

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Accounts payable and other financial liabilities due within 3 months or less are equal to their carrying balances as the impact of discounting is insignificant.

<b>As at 31 December 2007</b>	<b>Less than 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
Borrowings	549	4,567	13,699	-
Trade and other payables	23,109	-	-	-
	<b>23,658</b>	<b>4,567</b>	<b>13,699</b>	-
<b>As at 31 December 2006</b>	<b>Less than 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
Borrowings	935	21,704	-	-
Trade and other payables	14,231	-	-	-
	<b>15,166</b>	<b>21,704</b>	-	-

**3.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100,000 and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2007 and 31 December 2006, the Company complied with these requirements.

The Company's management monitors the following liability/equity ratios:

	<b>2007</b>	<b>2006</b>
General liquidity coefficient ( Current assets / Current liabilities )	1.78	1.68
Debt-equity coefficient ( Total liabilities/ Total equity )	1.06	0.90
Debt coefficient ( Total liabilities / Total assets)	0.51	0.47

**3.3 Fair value estimation**

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

Trade payables and receivables accounted for in the Company's balance sheet should be settled within a period shorter than three months, therefore it is deemed that their fair value equals to their carrying amount. Interest rate on the borrowings received by the Company is subject to repricing at least every three months, therefore it is deemed that their fair value equals their carrying amount.

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#### **4. Critical accounting estimates and judgements**

Estimates and judgements 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.

##### **4.1 Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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.

###### *Tax audits*

The tax authorities have carried out a full-scope tax audit at the Company until September 2003. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect except for the probable claim amounting to LTL 218 thousand for which provision was established.

###### *Depreciation of property, plant and equipment*

The management estimates depreciation period for buildings at the time they are acquired or constructed and reviews on annual basis for appropriateness. The useful lives of the assets are based on historical experiences with similar assets as well as anticipation of future events which may impact their life, such as changes in technology, company's business or location.

###### *Provisions for liabilities and charges*

Provisions for liabilities and charges were determined based on the management's expectation on the future outflow of resources.

##### **4.2 Critical judgements in applying the Company's accounting policies**

###### *Accounting for the discontinued operations*

In December 2005 the Company separated its operations by continuing production of strong alcohol beverages as Stumbras AB in Kaunas and establishing new company Biofuture AB for the production of non-denatured ethyl alcohol of agricultural origin and denatured ethyl alcohol in Šilutė. The demerger was achieved by means of dividend in specie of the shares in the entity that is disposed of to the Company's existing shareholders. No gains or losses have been recognised on the disposal because it is a transaction with the Company's shareholders. After the demerger results of production plants in Antanavas, Balbieriškis and Šilutė were presented as discontinued operations based on the assumption that a demerger may be treated in the same way as abandonment for presentation purposes under IFRS 5. Dividend in specie is charged to equity and shown in the financial statements at the amount of net assets attributable to the demerged subsidiary at the date of the demerger.

In 2006 until final registration and enforcement of necessary documentation allowing the newly established company Biofuture AB to operate non-denatured and denatured ethyl alcohol production and sales, these activities were performed by Stumbras AB. Income and expenses related to these activities were disclosed as results from discontinued operations.

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**5. Comparatives**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. The effect of reclassifications is as follows:

LTL thousands	2006
Decrease in	
Property, plant and equipment	36
Increase in	
Non-current receivables and deferred charges	36

LTL thousands	
Decrease in	
Acquisitions of property, plant and equipment	36

**6. Segment information**

*(a) Primary reporting format – business segments*

The Company is operating in one business segment i.e. production and sales of alcohol drinks, another reportable segment – production and sales of ethanol is related to the discontinued operations.

*(b) Secondary reporting format – geographical segments*

The home-country of the Company is Lithuania.

<b>Sales</b>	<b>2007</b>	<b>2006</b>
Lithuania	153,193	94,701
Estonia	4,578	907
Poland	3,305	1,561
Latvia	2,609	2,996
Kazakhstan	1,891	-
Israel	709	418
USA	417	322
France	199	-
Great Britain	196	100
Spain	192	119
India	189	
Denmark	184	132
Bangladesh	131	32
Northern Ireland	117	79
El Salvador	90	86
Greece	88	108
Peru	83	-
Finland	79	-
United Arab Emirates	62	84
Bulgaria	51	-
Other countries	148	298
<b>Total</b>	<b>168,511</b>	<b>101,943</b>

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**6. Segment information (continued)**

Sales are allocated based on the country in which the customers are located.

All Company's assets are located in Lithuania and all capital expenditure related to Lithuania.

<b>Analysis of sales by category</b>	<b>2006</b>	<b>2006</b>
Sales of goods	167,679	100,534
Revenue from resale of goods	452	921
Revenue from services	380	488
	<u>168,511</u>	<u>101,943</u>

**7. Property, plant and equipment**

	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Vehicles</b>	<b>Other property, plant and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 1 January 2006</b>						
Cost	11,644	28,362	1,781	5,757	108	47,652
Accumulated depreciation	(2,927)	(17,345)	(1,268)	(2,604)	-	(24,144)
Net book amount	<u>8,717</u>	<u>11,017</u>	<u>513</u>	<u>3,153</u>	<u>108</u>	<u>23,508</u>
<b>Year ended 31 December 2006</b>						
Opening net book amount	8,717	11,017	513	3,153	108	23,508
Additions	-	1 862	1	389	4,148	6,400
Disposals	-	-	-	(524)	-	(524)
Reclassifications	176	2,848	4	22	(3,050)	-
Reclassifications to non-current assets classified as held for sale	3	(96)	1	(7)	-	(99)
Depreciation charge	(201)	(2,931)	(128)	(912)	-	(4,172)
Closing net book amount	<u>8,695</u>	<u>12,700</u>	<u>391</u>	<u>2,121</u>	<u>1,206</u>	<u>25,113</u>
<b>At 31 December 2006</b>						
Cost	12,835	32,027	1,713	4,990	1,206	52,771
Accumulated depreciation	(4,140)	(19,327)	(1,322)	(2,869)	-	(27,658)
Net book amount	<u>8,695</u>	<u>12,700</u>	<u>391</u>	<u>2,121</u>	<u>1,206</u>	<u>25,113</u>
<b>Year ended 31 December 2007</b>						
Opening net book amount	8,695	12,700	391	2,121	1,206	25,113
Additions	7,000	436	-	759	7,728	15,923
Disposals	-	-	-	(400)	-	(400)
Reclassifications	1,648	7,159	6	26	(8,839)	-
Reclassifications to non-current assets classified as held for sale	-	(6)	-	-	-	(6)
Impairment charge	-	(641)	-	(40)	-	(681)
Depreciation charge	(213)	(3,161)	(129)	(1,280)	-	(4,783)
Closing net book amount	<u>17,130</u>	<u>16,487</u>	<u>268</u>	<u>1,186</u>	<u>95</u>	<u>35,166</u>
<b>At 31 December 2007</b>						
Cost	21,484	30,944	1,593	3,485	95	57,601
Accumulated depreciation and impairment	(4,354)	(14,457)	(1,325)	(2,299)	-	(22,435)
Net book amount	<u>17,130</u>	<u>16,487</u>	<u>268</u>	<u>1,186</u>	<u>95</u>	<u>35,166</u>

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**7. Property, plant and equipment (continued)**

Depreciation and amortisation expense has been allocated as follows:

	<b>2007</b>	<b>2006</b>
Cost of goods sold	2,980	2,623
Sale and marketing expenses	921	574
Administrative expenses	1,146	1,119
	<u>5,047</u>	<u>4,316</u>

Impairment charge is related to buildings and equipment which are not longer used by the Company and where the Company's management does not see reasonable possibility to sell or rent these assets. Impairment provision amounted to 100% of the net book value of related assets.

As at 31 December 2007 property, plant and equipment for the net book value LTL 16,079 thousand (2006: LTL 17,040 thousand) and land rent rights for the value of LTL 1 thousand ( 2006:4 thousand ) were provided as collateral for bank borrowings (Note 17).

No borrowing costs were capitalised during the years ended 31 December 2007 and 31 December 2006.

Lease rental income amounting to LTL 9 thousand (2006: LTL 4 thousand) relating to the lease of property, plant and equipment are included in the income statement.

**8. Intangible assets**

	<b>Patents and licences</b>	<b>Software</b>	<b>Total</b>
<b>At 1 January 2006</b>			
Cost	572	316	888
Accumulated amortisation	(245)	(184)	(429)
Net book amount	<u>327</u>	<u>132</u>	<u>459</u>
<b>Year ended 31 December 2006</b>			
Opening net book amount	327	132	459
Additions	50	198	248
Disposals	-	-	-
Amortisation charge	(127)	(17)	(144)
Closing net book amount	<u>250</u>	<u>313</u>	<u>563</u>
<b>At 31 December 2006</b>			
Cost	622	515	1 137
Accumulated amortisation	(372)	(202)	(574)
Net book amount	<u>250</u>	<u>313</u>	<u>563</u>
<b>Year ended 31 December 2007</b>			
Opening net book amount	250	313	563
Additions	393	259	652
Disposals	-	-	-
Amortisation charge	(165)	(99)	(264)
Closing net book amount	<u>478</u>	<u>473</u>	<u>951</u>
<b>At 31 December 2007</b>			
Cost	1,001	773	1,774
Accumulated amortisation	(523)	(300)	(823)
Net book amount	<u>478</u>	<u>473</u>	<u>951</u>

The Company does not have internally generated intangible assets.



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**9. Deferred income tax**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	<b>2007</b>	<b>2006</b>
Deferred tax assets:		
– to be recovered after more than 12 months	(308)	(344)
– to be recovered within 12 months	(86)	(90)
	<u>(394)</u>	<u>(434)</u>
Deferred tax liabilities:		
– to be recovered after more than 12 months	456	472
– to be recovered within 12 months	16	18
	<u>472</u>	<u>490</u>
Net deferred tax liability/(asset)	<u>78</u>	<u>56</u>

The gross movement on the deferred income tax account is as follows:

	<b>2007</b>	<b>2006</b>
Beginning of the year	56	(73)
Income statement charge/(credit) (Note 22)	22	129
End of the year	<u>78</u>	<u>56</u>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

	Differences in carrying value of fixed assets for which impairment was recognised	Written-off bad debts	Accrued social insurance expenses on vacation reserve	Other	Total
<b>Deferred tax assets</b>					
<b>At 1 January 2006</b>	(335)	(195)	(45)	(7)	(582)
Charged to income statement	10	131	4	3	148
<b>At 31 December 2006</b>	(325)	(64)	(41)	(4)	(434)
Charged to income statement	9	36	(9)	4	40
<b>At 31 December 2007</b>	<u>(316)</u>	<u>(28)</u>	<u>(50)</u>	<u>-</u>	<u>(394)</u>

	Differences in carrying value of revalued fixed assets	Total
<b>Deferred tax liabilities</b>		
<b>At 1 January 2006</b>	509	509
Credited to income statement	(19)	(19)
<b>At 31 December 2006</b>	490	490
Credited to income statement	(18)	(18)
<b>At 31 December 2007</b>	<u>472</u>	<u>472</u>

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**10. Non-current receivables and deferred charges**

	<b>2007</b>	<b>2006</b>
Non-current receivables	54	36
Deferred charges	4	42
	<u>58</u>	<u>78</u>

The fair values of non-current receivables and deferred charges approximate their carrying values.

**11. Inventories**

	<b>2007</b>	<b>2006</b>
Raw materials	11,400	8,837
Work in progress	177	527
Finished goods	3,587	3,878
	<u>15,164</u>	<u>13,242</u>

At 31 December 2007 inventories of LTL 20,000 thousand (2006: same) is provided as collateral for borrowings (Note 17).

The cost of inventories written-off during the year amounted to LTL 310 thousand (2006: LTL 903 thousand).

**12. Trade, other receivables and prepayments**

	<b>2007</b>	<b>2006</b>
Trade receivables	53,307	28,486
Less provision for impairment of receivables	(2,213)	(1,250)
Trade receivables – net	51,094	27,236
Receivables from related parties (Note 28)	28,851	17,444
Trade receivables	28,560	17,194
Other receivables	291	250
Prepayments	2,081	1,200
Prepaid and recoverable taxes	1,638	666
Other receivables	116	7
Less provision for impairment of other receivables	(81)	-
Other receivables-net	35	7
	<u>83,699</u>	<u>46,553</u>

The fair values of trade, other receivables and prepayments approximate their carrying values.

Trade receivables that are less than 360 days past due are not considered impaired if the Company does not possess other negative information about the customers. As of 31 December 2007, trade receivables of LTL 225 thousand (2006: LTL 4,312 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	<b>2007</b>	<b>2006</b>
Up to 30 days	67	2,298
31 to 60 days	7	955
61 to 180 days	87	964
More than 181 days	64	95
	<u>225</u>	<u>4,312</u>

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**12. Trade, other receivables and prepayments (continued)**

As of 31 December 2007, trade and other receivables of LTL 2,294 thousand (2006: LTL 1,250 thousand) were impaired and provided for. The individually impaired receivables mainly relate to foreign customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	<b>2007</b>	<b>2006</b>
Up to 1 year	971	-
1 to 2 years	132	51
2 to 5 years	69	69
Over 5 years	1,122	1,130
	<u>2,294</u>	<u>1,250</u>

Movements on the provision for impairment of trade and other receivables are as follows:

	<b>2007</b>	<b>2006</b>
At 1 January	1,250	1,288
Provision for receivables impairment	1,053	50
Reversal of provision	(7)	(31)
Recovered debts previously written-off	(2)	(57)
At 31 December	<u>2,294</u>	<u>1,250</u>

The carrying amounts of the Company's trade, other receivables and prepayments are denominated in the following currencies:

	<b>2007</b>	<b>2006</b>
Lithuanian litas	79,186	40,371
EUR	4,334	5,745
US dollars	227	437
Polish zloty	10	-
	<u>83,757</u>	<u>46,553</u>

The other classes within trade and other receivables and prepayments do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

**13. Cash and cash equivalents**

	<b>2007</b>	<b>2006</b>
Cash at bank	5,433	9,157
Short-term bank deposits	16,795	30,000
	<u>22,228</u>	<u>39,157</u>

Cash at bank and future inflows to bank accounts amounting to LTL 20,000 thousand (2006: LTL 60,000 thousand) is provided as collateral for banks' borrowings (see Note 17). Effective interest rate for bank deposits amounted to 6,75 %.

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**14. Share capital**

As at 31 December 2007, the Company's authorised share capital comprised 40,000,000 ordinary registered shares with a par value of LTL 1 per share (2006: 40,000,000 shares with a par value of LTL 1 per share). All issued shares are fully paid. During 2006 the Company's share capital was increased by LTL 315 thousand by issuing 314,646 ordinary registered shares with a par value of LTL 1 per share having employees status i.e. these shares were sold to the Company's employees and they can only be transferred to other Company's employees during the following 12 months period.

**14. Share capital (continued)**

	Number of shares	Nominal value per share	Total share capital
Balance as at 1 January 2006	39,685,354	1	39,685,354
Increase of share capital	314,646	1	314,646
Balance as at 31 December 2006 and 2007	40,000,000	1	40,000,000

**15. Reserves**

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5 per cent of net profit for the reporting period calculated in accordance with the Lithuanian regulatory legislation on accounting are required until the reserve reaches 10 per cent of the authorised share capital. The legal reserve shall not be used for the payment of dividends and it may be used to cover future losses only. As at 31 December 2007 the legal reserve amounted to LTL 1,985 thousand.

In 2007 reserve amounting to LTL 4,000 thousand established in 2006 for the acquisition of treasury shares was abolished.

**16. Trade and other payables**

	2007	2006
Trade payables	18,921	11,512
Amounts due to related parties (Note 28)	682	749
Advances received	40	7
Payroll related liabilities	3,463	1,944
Taxes payable (other than income tax)	33,419	19,511
Other current liabilities	43	26
	<u>56,568</u>	<u>33,749</u>

**17. Borrowings**

	2007	2006
<b>Non-current</b>		
Bank borrowings	12 691	-
	<u>-</u>	<u>-</u>
<b>Current</b>		
Bank borrowings	4 231	21,923
	<u>4 231</u>	<u>21,923</u>
<b>Total borrowings</b>	<u>16 922</u>	<u>21,923</u>

The whole amount of bank borrowings relate to a syndicated loan from two banks at a floating interest rate. This loan is to be repaid by 1 September 2011.

Bank borrowings are secured by the property, plant and equipment (Note 7), inventories (Note 11) and cash at banks including future inflows into accounts (Note 13).

Interest rate of borrowings is based on market interest rate with repricing term of 3 months, therefore carrying amount of borrowings approximates to its fair value as discounting effect is not material.

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**17. Borrowings (continued)**

The maturity of non-current borrowings is as follows:

	<b>2007</b>	<b>2006</b>
Between 1 and 2 years	9,230	-
Between 2 and 5 years	3,461	-
Over 5 years	-	-
	<u>12,691</u>	<u>-</u>

The actual interest rate at the balance sheet date was 5.883 % (2006: 4.73%).

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	<b>2007</b>	<b>2006</b>
EUR	16,922	21,923
	<u>16,922</u>	<u>21,923</u>

SEB Vilniaus Bankas AB provided a guarantee to the Company for the amount of LTL 500 thousand as at 31 December 2007, maturing on 31 December 2008. The maximum amount of guarantees that could be issued by the bank is LTL 500 thousand.

**18. Provisions for other liabilities and charges**

The whole amount of provisions for other liabilities and charges as at 31 December 2007 is established for expected expenses related to legal claims, where the Company is involved.

Part of the provision is established for the tax claim (see note 4.1)- expected settlement in 2008, remaining part for the probable claim related to the breach of the conditions stated in the agreement with one of the Company's service providers with the expected settlement during 2008-2009.

**19. Expenses by nature**

	<b>2007</b>	<b>2006</b>
<i>Classified as cost of sales</i>		
Tare and packaging materials	37,360	23,308
Raw materials	38,938	21,087
Salaries	3,305	2,370
Social insurance	1,024	734
Depreciation and amortisation	2,980	2,568
Energy	986	661
Auxiliary materials	555	390
Other	457	1,005
	<u>85,605</u>	<u>52,123</u>
	<b>2007</b>	<b>2006</b>
<i>Classified as selling and marketing costs</i>		
Marketing, advertising	9,328	6,263
Logistics	2,479	1,425
Tare and packaging materials	992	409
Depreciation and amortisation	921	574
Other	1,345	1,080
	<u>15,065</u>	<u>9,751</u>

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**19. Expenses by nature (continued)**

	<b>2007</b>	<b>2006</b>
<i>Classified as administrative expenses</i>		
Salaries	9,954	6,686
Social insurance	3,070	2,067
Consultations, audit	2,257	1,670
Depreciation and amortisation	1,146	1,101
Written-off assets	359	1,068
Waste management	2,119	1,002
Events	288	658
Repairs and maintenance	656	500
Utilities	336	415
Rent expenses	676	413
Work safety, hygiene	314	230
Fuel	271	280
IT expenses	243	177
Business trips	152	133
Communications	103	113
Other taxes	1,209	111
Charity	103	104
Insurance	108	94
Licences and fees	109	94
Bank charges	72	54
Provisions for liabilities and charges	1,719	(264)
Bad debts	1,042	(95)
Penalties	6	220
Impairment charge for PP&E	681	-
Write-off of PP&E	25	-
Impairment charge for assets held for sale	168	-
Other expenses	238	209
	<b>27,424</b>	<b>17,040</b>
	<b>2007</b>	<b>2006</b>
<i>Classified as other expenses</i>		
Cost of sold inventories	273	682
Loss on disposal of property, plant and equipment	55	200
Other	-	3
	<b>328</b>	<b>885</b>
<b>20. Other income</b>		
	<b>2007</b>	<b>2006</b>
Interest income	645	599
Sold inventories	1,045	1,023
Other	23	217
	<b>1,713</b>	<b>1,839</b>
<b>21. Finance income and finance costs</b>		

Finance income comprises interest for the cash held in bank. Finance costs comprise interest expenses on bank borrowings.

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**22. Income tax expense**

	<b>2007</b>	<b>2006</b>
Current tax	8,303	4,826
Adjustments related to previous periods	(7)	(4)
Deferred tax (Note 9)	22	129
	<u>8,318</u>	<u>4,951</u>

	<b>2007</b>	<b>2006</b>
Income tax related to continued operations	8,318	4,631
Income tax related to discontinued operations	-	320
	<u>8,318</u>	<u>4,951</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the Company as follows:

	<b>2007</b>	<b>2006</b>
Profit before income tax	41,085	23,154
Profit /(loss) from discontinued operations	-	1,683
Profit before income tax from continuing and discontinued operations	<u>41,085</u>	<u>24,837</u>
Income tax at 18% (2006: 19%)	7,395	4,719
Income not subject to tax	(3)	(69)
Expenses not deductible for tax purposes	970	345
Charity expenses deductible twice for tax purposes	(37)	(40)
Adjustments related to previous periods	(7)	(4)
Previously unrecognised gain/expenses carried forward	-	-
Income tax expense	<u>8,318</u>	<u>4,951</u>

Profit is taxable at a rate of 15 per cent (2006: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation. According to the newly adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 4 per cent for 2006 and at a rate of 3 per cent for 2007 should be paid on taxable income earned during 2006 and 2007 respectively.

**23. Discontinued operations**

In December 2005 the Company split its operations and assets and liabilities into those related to production of strong alcohol drinks and production of non-denatured ethyl alcohol and bioetanol. Production of strong alcohol drinks remained at Stumbras AB. Production of non-denatured ethyl alcohol and bioetanol, considered as discontinued operations, together with all related assets and liabilities was transferred to a newly established company Biofuture AB.

In 2006 until final registration and enforcement of necessary documentation allowing the newly established company Biofuture AB to operate non-denatured and denatured ethyl alcohol production and sales, these activities were performed by Stumbras AB. Income and expenses related to these activities were disclosed as results from discontinued operations.

An analysis of the result of discontinued operations is as follows:

	<b>2007</b>	<b>2006</b>
Revenue	-	17,896
Expenses	-	(16,213)
Profit/(loss) before tax of discontinued operations	<u>-</u>	<u>1,683</u>
Income tax	-	(320)
Profit/(loss) after tax of discontinued operations	<u>-</u>	<u>1,363</u>

Income tax was allocated to discontinued operations based on the share of profit from discontinued operations in the total profit for the year.

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**23. Discontinued operations (continued)**

	<b>2007</b>	<b>2006</b>
Non-current assets classified as held for sale:		
– Property, plant and equipment	-	162
	-	162

**24. Earnings per share**

*Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	<b>2007</b>	<b>2006</b>
Profit from continuing operations attributable to the equity holders	32,767	18,523
Profit/(loss) from discontinued operations attributable to the equity holders	-	1,363
Net profit attributable to equity holders of the Company	<u>32,767</u>	<u>19,886</u>
Weighted average number of ordinary shares in issue (thousands)	40,000	39,848
Basic earnings per share (LTL per share)		
From continuing operations	0.82	0.47
From discontinued operations	-	0.03
Basic earnings per share	<u>0.82</u>	<u>0.50</u>

*Diluted*

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share are the same as basic earnings per share.

**25. Dividends per share**

At the Annual General Shareholders' meeting on 30 March 2007, a dividend in respect of 2006 of LTL 0.55 per share equivalent amounting to a total dividend of LTL 22.000 thousand were declared.

Dividends relating to 2007 of LTL 0.80 per share and for the total amount of LTL 32,000 thousand are expected to be proposed at the Annual General Meeting. These financial statements do not reflect this dividend payable.

**26. Cash generated from operations**

	<b>2007</b>	<b>2006</b>
Net profit for the period	32,767	19,886
Adjustments for:		
– tax (Note 22)	8,318	4,951
– depreciation (Note 7)	4,783	4,172
– amortisation (Note 8)	264	144
– (profit)/loss on disposal of PPE and impairment charge	833	21
– interest income (Note 20, 21)	(1,010)	(789)
– interest expense (Note 21)	1,033	984
Changes in working capital:		
– non-current receivables and deferred charges	20	1,407
– inventories and assets held for sale	(1,754)	11,248
– trade and other receivables and prepayments	(37,024)	(18,650)
– trade and other payables, deferred income and provisions	24,522	(4,036)
Cash generated from operations	<u>32,752</u>	<u>19,338</u>



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**26. Cash generated from operations (continued)**

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<b>2007</b>	<b>2006</b>
Net book amount of sold and written-off/impaired assets (Note 7 and Note 8)	1,081	524
(Loss) on disposal/write-off of non-current assets and impairment loss	(833)	(21)
Proceeds from sale of non-current assets	<u>248</u>	<u>503</u>

*Non-cash transactions*

There were no significant non cash transactions in 2007 end 2006.

**27. Contingent liabilities and commitments**

*(a) Capital commitments*

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<b>2007</b>	<b>2006</b>
Property, plant and equipment	<u>278</u>	<u>106</u>

*(b) Operating lease commitments – where the Company is the lessee*

The Company leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the period is disclosed in Note 19.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>2007</b>	<b>2006</b>
No later than 1 year	342	383
Later than 1 year and no later than 5 years	437	653
Later than 5 years	-	4
	<u>779</u>	<u>1,040</u>

*(c) Tax audits*

The tax authorities have carried out a full-scope tax audit at the Company until September 2003. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect except for the probable claim amounting to LTL 218 thousand for which provision was established (2006: nil).

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**28. Related-party transactions**

Mineraliniai Vandenyys AB is the majority shareholder of the Company owning 93.30 per cent of the Company's shares. The remaining shares are widely held.

Other companies treated as related parties are subsidiaries of Koncernas MG Baltic UAB.

Services are usually negotiated with related parties on a cost-plus basis. Goods are sold on the basis of the price list in force with non-related parties.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	<b>2007</b>	<b>2006</b>
– UAB „Mineraliniai vandenys“	85,996	44,216
– AB „Biofuture“	5	5,699
– UAB „Mitnija“	1	19
– Stumbras Poland Sp.zo.o	843	1,253
– UAB „TV 1“	-	10
	<u>86,845</u>	<u>51,197</u>

(b) Cost of sales

	<b>2007</b>	<b>2006</b>
– UAB „Trojina“	-	90
– AB „Biofuture“	11	260
	<u>11</u>	<u>350</u>

((c) Selling and marketing cost

	<b>2007</b>	<b>2006</b>
– UAB Koncernas „MG Baltic“	-	-
– UAB „Mineraliniai vandenys“	1,316	544
– UAB „Trojina“	-	44
– UAB „Tromina“	124	266
– UAB „Laisvas nepriklausomas kanalas“	855	732
– UAB „TV 1“	-	10
– UAB „Neo press“	50	23
– UAB „Apranga“	3	-
– Stumbras Poland Sp.zo.o	-	119
– UAB „Alfa media“	-	10
	<u>2,348</u>	<u>1,748</u>

(d) Administrative expenses

	<b>2007</b>	<b>2006</b>
– UAB Koncernas „MG Baltic“	572	486
– UAB Koncernas „MG Baltic Trade“	79	418
– UAB „Mineraliniai vandenys“	29	43
– UAB „MG Valda“	142	184
– UAB „MG Baltic Investment“	-	2
– AB „Biofuture“	-	865
	<u>822</u>	<u>1,998</u>

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**28. Related-party transactions (continued)**

*(e) Other income*

	<b>2007</b>	<b>2006</b>
– UAB „Minvista”	178	571
– UAB „Mineraliniai vandenys”	467	-
	<u>645</u>	<u>571</u>

*(f) Other costs*

	<b>2007</b>	<b>2006</b>
AB „Biofuture“	-	2,914
	<u>-</u>	<u>2,914</u>

*(g) Purchases of property, plant and equipment*

	<b>2007</b>	<b>2006</b>
– UAB „Mitnija”	209	-
	<u>209</u>	<u>-</u>

*(h) Key management compensation*

	<b>2007</b>	<b>2006</b>
Salaries and other short-term employee benefits	1,190	1,229
Social security expenses	368	403
	<u>1,558</u>	<u>1,632</u>

Key management includes 7 (2006: 9) members of the management of the Company.

*(i) Year-end balances arising from sales/purchases of goods/services*

Receivables from related parties (Note 12):

	<b>2007</b>	<b>2006</b>
– UAB „Mineraliniai vandenys” (trade receivable)	28,550	16,496
– UAB „Mineraliniai vandenys” (accrued interest)	291	-
– AB „Biofuture“	-	83
– UAB „Mitnija“	-	24
– Stumbras Poland Sp.zo.o	10	672
– UAB „Minvista”	-	169
	<u>28,851</u>	<u>17,444</u>

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**28. Related-party transactions (continued)**

Amounts due to related parties (Note 16):

	<b>2007</b>	<b>2006</b>
Trade payables		
– UAB Koncernas „MG Baltic”	100	55
– UAB Koncernas „MG Baltic Trade”	-	48
– UAB „Mineraliniai vandenys”	410	98
– UAB „Tromina”	-	136
– UAB „MG Baltic Investment”	-	3
– UAB „Laisvas nepriklausomas kanalas”	156	390
– UAB „MG valda”	15	15
– UAB „Neo press”	1	-
– AB „Biofuture”	-	4
	<u>682</u>	<u>749</u>

*(j) Loans to related parties (provided to Minvista UAB)*

	<b>2007</b>	<b>2006</b>
<i>Loans to related parties</i>		
Beginning of year	-	33,399
Additional loans	50,100	15,000
Loan repayments received	(50,100)	(48,399)
End of the year	-	-

The annual interest rate for the loan amounts to 2.05 per cent.

	<b>2007</b>	<b>2006</b>
<i>Accrued interest on the loans to related parties</i>		
Beginning of year	169	2,833
Interest charged	645	571
Interest payments received	(523)	(3,235)
End of the year	<u>291</u>	<u>169</u>

**STUMBRAS AB**

ANNUAL REPORT

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## 1. Reporting period covered by the Report

The annual report is prepared for the period from 1 January 2007 to 31 December 2007. All amounts in the annual report present situation as at 31 December 2007, unless otherwise stated. Further in this report Stumbras AB can be referred to as the Company or the Issuer.

## 2. Issuer and its contact data

Name of the Issuer	Stumbras AB
Legal organisational form	public company
Authorised share capital	LTL 40,000,000
Date and place of incorporation	4 October 1995, Kaunas City Council
Registration certificate No.	AB 95 – 70B
Company code	1320 82782
Company VAT code	LT3208278211
Company's register	Register of Legal Entities of the Republic of Lithuania
Official seat	K. Būgos g. 7, LT- 44355 Kaunas
Telephone	8 (37) 308800
Facsimile	8 (37) 308833
E-mail	<a href="mailto:stumbras@stumbras.lt">stumbras@stumbras.lt</a>
Website	<a href="http://www.stumbras.eu/lt">www.stumbras.eu/lt</a>

The Company has established no affiliates and agencies.

## 3. Nature of the Issuer's operations

The Company's principal activities represent production of and trade in ethyl alcohol and alcoholic drinks. The Company can pursue other activities stipulated in its Articles of Association.

## 4. Contracts with intermediaries of securities' public turnover

On 24 October 2003, the Company concluded a contract on the service of the Issuer with SEB Vilniaus Bankas AB (company code 112021238), Gedimino pr. 12, Vilnius, tel. (8 5) 268 2687, fax (8 5) 262 6043. In relationship with the Issuer the latter is represented by the Department of Financial Markets.

## 5. Information about trade in the Issuer's securities in the regulated markets

The Issuer's shares are listed on the Vilnius Stock Exchange. At the present moment, all 40,000,000 ordinary registered share with a par value of LTL 1 (one) comprising the Company's authorised share capital are listed on the Current List of the Vilnius Stock Exchange. ISIN code of securities: LT0000119430.

## 6. Objective overview of the Company's financial position, performance and development, description of its exposure to key risks and contingencies

As at 31 December 2007, Stumbras AB produced alcoholic drinks with 134 different names.

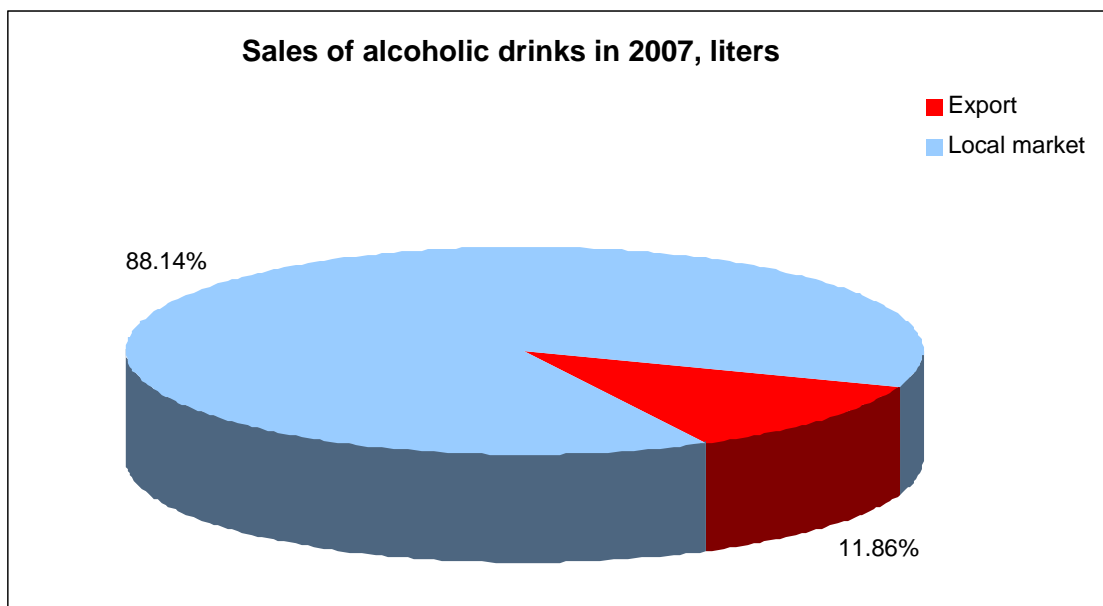
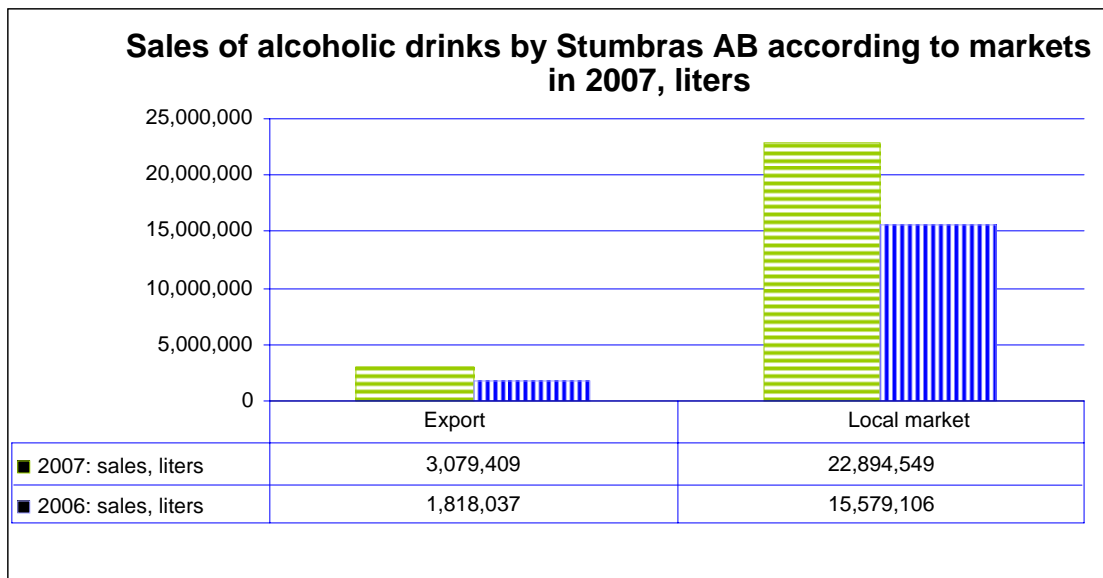
Main volumes of production over the period of the last 3 years are as follows (data is provided in decaliters (dal) and tons):

Name	Unit of measurement	2007	2006	2005
Alcohol products	thousand dal	2,602	1,809	1,450
Including alcoholic drinks	thousand dal	2,596	1,805	1,437
Other finished products	thousand tons			

In 2007, new products were launched: quince-flavoured vodka *Originali lietuviška degtinė* (Original Lithuanian Vodka), *Stumbro duonos degtinė* (Stumbras Bread Vodka), *Nipernaadi* cherry vodka, alcoholic drink *Akropolis*, alcoholic drink *Aramis SR*, brandy *Amazonia*, liqueur *Lithuanian Cranberry*, brandy *Waterloo XO*, brandy *Waterloo VSOP*.

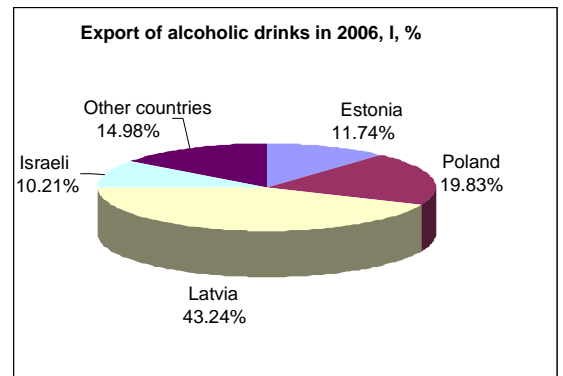
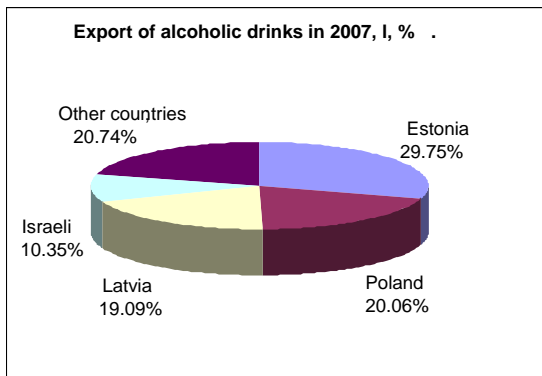
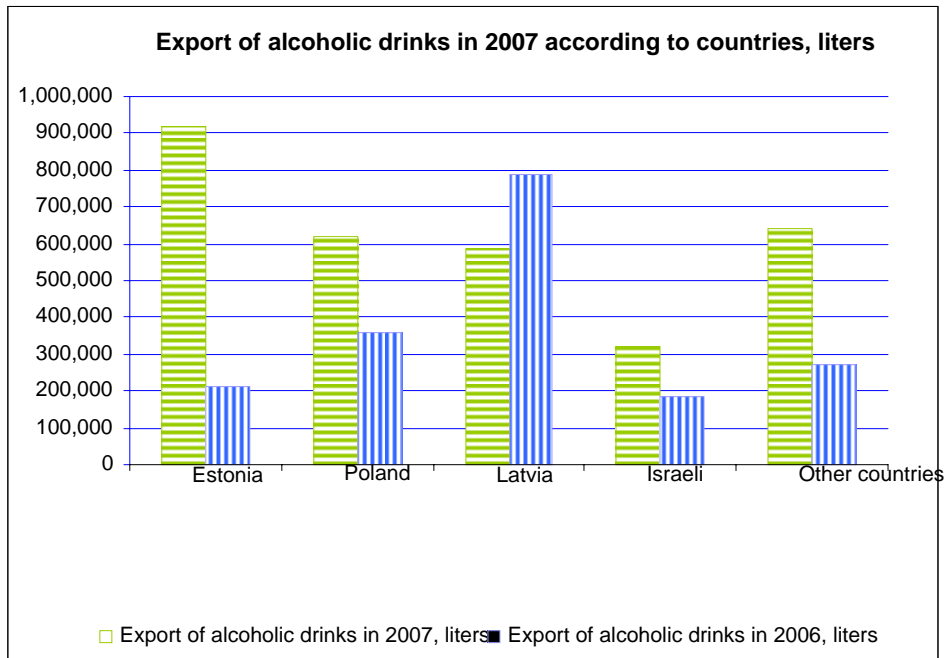
Rectified ethyl alcohol and alcoholic drinks are subject to excise duties established under legal acts of the Republic of Lithuania. The latter duties make a significant impact on changes in prices and volumes of sales of products produced by Stumbras AB. During a reporting period an excise duty of LTL 3,200 per hectoliter of pure ethyl alcohol was applicable to alcoholic drinks and ethyl alcohol (in accordance with Article 24 of the Law on Excise Duties of the Republic of Lithuania No. IX-569 (effective wording: 7 December 2006). Based on the amendment to the Law on Excise Duties of the Republic of Lithuania (the Law No. X-1355 as of 6 December 2007), starting from 1 January 2008 the excise duty applicable to alcoholic drinks and ethyl alcohol has been increased and currently amounts to LTL 3,840 per hectoliter of pure ethyl alcohol.

In 2007, an average selling price of products went up from LTL 8.19 per liter to 9.42 per liter. When implementing its obligations under earlier concluded long-term sales contracts and entering into new contracts, the Company ensures constant and scheduled sales of products.





In 2007, the Company's production was mainly exported to Estonia, Poland, Latvia which comprised 79.26 per cent of all exported products. Products were also traded in Kazakhstan, the US, Denmark, Spain, United Kingdom, Bangladesh, United Arab Emirates, Italy, Northern Ireland, Bulgaria, Peru, Salvador, Greece, Singapore, India, England, Australia, France, Ireland.



**Risk factors related to the Issuer's operations:**

Economic factors. The Company's principal activities represent production of and trade in strong alcoholic drinks. The Company's competitors in the market are other Lithuanian producers of strong alcoholic drinks and business entities importing and selling strong alcoholic drinks in the Republic of Lithuania. Performance of the Company may be also affected by the existing illegal production of alcoholic drinks and contraband in these products as well as in rectified ethyl alcohol. When assessing the Company's competitive features, it can be claimed that the potential of employees and technical-technological base serves as a ground for a successful operations of the Company in this market.

One of potential operational risks that the Company is exposed to represents circumstances when with a growing level of living standards of local residents, a part of consumers may start choosing imported drinks. Another operational risk may be linked with a growing power of commercial retail chains and their ability to affect sales of goods. In addition, the Company may loose a part of its profits due to the expected increase in exports of goods and sales in other European countries.

**Political factors.** Instability of laws and other regulatory legislation governing the Company's activities has a negative impact. One of potential risk factors capable of making an indirect impact on the performance of the Company represents restrictions on advertising of alcoholic drinks.

**Ecological factors.** Expenses of environmental pollution incurred by the Company in 2007 amounted to LTL 3,109 thousand (2006: LTL 1,002 thousand). Costs related to the management of package waste released to the domestic market constitute the major part of these expenses. The increase in these expenses was determined by higher production volume and that from 2006 the Company started a gradual use of single-use packaging.

**Technical-technological factors** may impact the Company's economic and financial performance taking into consideration that rectified ethyl alcohol of other producers is used in the production process. The Company faces a substantial increase in dependence on providers of raw materials in respect of cost of products and quality.

**Factors of financial risk.** As at 31 December 2007, Stumbras AB had the following loans (LTL thousand):

	<b>2007</b>
<b>Long-term</b>	
Loans received from bank	12,691
<b>Short-term</b>	
Loans received from bank	4,231
<b>Total loans</b>	<b>16,922</b>

The whole amount of bank borrowings relate to a syndicated loan from two banks at a floating interest rate. This loan is to be repaid by 1 September 2011.

## **7. Analysis of financial and non-financial performance**

In 2007, the Company's revenue from sales of goods (net of excise duty) and provision of services amounted to LTL 168,511 thousand, i.e. 47.3 per cent more as compared to 2006 when revenue from sales (including discontinued operations) amounted to LTL 114,414 thousand.

The Company's profit before tax was LTL 41,085 thousand, i.e. 65.4 per cent more as compared to 2006 (including discontinued operations). During a reporting period, the Company's taxes paid or payable to the budget in accordance with the terms prescribed under regulatory legislation totalled LTL 295,509 thousand comprising:

- excise duty – LTL 221,617 thousand;
- value-added tax – LTL 56,664 thousand;
- social security tax – LTL 4,219 thousand;
- income tax of individuals – LTL 2,974 thousand;
- corporate income tax – LTL 8,296 thousand;
- other taxes – LTL 1,739 thousand.

The Company's key financial and economic performance indicators are as follows:

	2007	2006
Sales revenue, LTL thousand	168,511	101,943
Sales revenue in foreign markets, LTL thousand	15,318	6,953
Exports per total sales, per cent	9.1	6.8
Gross profit, LTL thousand	82,906	49,820
Gross profitability, per cent	49.2	48.9
Profit before tax, LTL thousand	41,085	23,154
Profitability before tax, per cent	24.4	22.7
Net profit, LTL thousand	32,767	18,523
Net profitability, per cent	19.4	18.2
EBITDA, LTL thousand	46,244	27,807
EBITDA profitability	27.4	27.3
Assets (at the end of the period), LTL thousand	157,281	124,883
including: non-current assets, LTL thousand	36,190	25,769
current assets, LTL thousand	121,091	99,114
Authorised share capital (at the end of the period), LTL thousand	40,000	40,000
Equity (at the end of the period), LTL thousand	76,449	65,682
Investments in modernisation of the Company, LTL thousand	16,575	6,648

In 2007, the Company's costs related to waste management amounted to LTL 2,119 thousand which is two times more as compared to the same period of the previous year (2006: LTL 1,002 thousand). During the reporting period the number of staff increased by 21.7 per cent due to a larger volume of production. As at 31 December 2007, the Company had 364 employees (1 January 2007: 299 employees). In 2007 the Company was engaged in social and cultural activities: the main sponsor of Pažaislis Music Festival.

#### **8. References to and additional explanations of data reported in the financial statements**

All financial data presented in this Annual Report is calculated in accordance with the International Financial Reporting Standards and is approved by the assigned auditor under established procedure.

#### **9. Information about own shares owned and acquired by the Company**

Neither during previous periods, nor during a reporting period own shares have been acquired by the Company.

#### **10. Significant events subsequent to the end of the previous financial year**

During a general meeting of shareholders of Stumbras AB as of 30 March 2007 dividends for 2006 were announced amounting to LTL 0.55 (EUR 0.16) per one ordinary registered share with the nominal value of LTL 1 (one) and making a total amount of LTL 22 million.

On 6 June 2007, amendments to the Company's Articles of Association were registered in the Register of Legal Entities of Lithuania. The revised Articles of Association were registered following the expiry of 314,646 (three hundred fourteen thousand, six hundred and forty-six) ordinary registered shares with a par value of LTL 1 per share having employees status with par value of LTL 1 issued by the Company.

## 11. Company's business plans and perspectives

In 2008, Stumbras AB aims for an increase in sales of products in the domestic market, in the EU countries and production export to the third countries.

In 2008, the Company expects to receive LTL 147.9 million from the sales of products and to earn LTL 33.1 million in profit before tax.

In 2008, the Company plans to invest nearly LTL 5 million in modernisation of production process.

## 12. Structure of the Issuer's authorised share capital

As at 31 December 2007, the Company's authorised share capital was comprised of 40,000,000 ordinary registered shares with par value of LTL 1 each.

Structure of the Company's authorised share capital according to categories of shares:

Category of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Percentage in the authorised share capital (%)
Ordinary registered shares	40,000,000	1	40,000,000	100.00
<b>Total</b>	<b>40,000,000</b>		<b>40,000,000</b>	<b>100.00</b>

All shares of Stumbras AB are fully paid.

The Company's shareholders shall have the following property rights:

- 1) to receive a part of the Company's profit (dividend);
- 2) to receive a part of assets of the Company in liquidation;
- 3) to receive shares without payment if the authorised share capital is increased out of the Company's funds, except in cases specified in the Law on Companies of the Republic of Lithuania;
- 4) to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the General Shareholder Meeting decides to withdraw this right for all the shareholders;
- 5) to leave all or a part of shares to one or several persons under a will;
- 6) to transfer all or a part of shares to the ownership of other persons, except in cases specified in the laws of the Republic of Lithuania;
- 7) other property rights established by laws and the Company's Articles of Association.

The Company's shareholders shall have the following non-property rights:

- 1) to attend the General Shareholder Meetings and vote;
- 2) to receive information on the Company specified in paragraph 1 of Article 18 of the Law on Companies of the Republic of Lithuania;
- 3) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Company Manager of his/her obligations prescribed by the Articles of Association of the Company and other laws as well as in other cases laid down by laws;
- 5) other non-property rights established by laws and the Company's Articles of Association.

## 13. Restrictions on disposal of securities

There are no restrictions.

#### 14. Shareholders

As at 31 December 2007, the number of shareholders of Stumbras AB was 719

Shareholders holding more than 5 per cent of the Company's authorised share capital as at 30 June 2007 are as follows:

Full name of the shareholder (company name, type, official seat, code of the legal entities' register)	Number of shares owned by the shareholder (units)	Share in the authorised capital	Share of votes represented by shares owned	Share of votes conferred to the shareholder together with persons acting jointly
Mineraliniai Vandenys UAB J.Jasinskio g. 16, Vilnius, company code 121702328	37,320,311	93.30		

#### 15. Shareholders holding special control rights and descriptions of these rights

There are no such shareholders.

#### 16. All restrictions regarding voting rights

There are no restrictions

#### 17. All mutual agreements of shareholders of which the Issuer is aware and due to which restrictions on transfer of securities and/or voting rights may be imposed

There are no such agreements

#### 18. Employees

	31/12/2007	01/01/2007
<b><u>Number of employees</u></b>		
Managers	7	7
Officials-specialists	64	62
Workers	293	230
	2007	2006
<b><u>Average gross remuneration</u></b>		
Managers	13,825	12,849
Officials-specialists	5,977	3,797
Workers	2,227	2,002

#### 19. Amendment procedure of the Issuer's Articles of Association

The Law on Companies of the Republic of Lithuania establishes that the General Shareholder Meeting shall be vested with an exclusive right to amend the Articles of Association.

The Company's Articles of Association stipulate that decision to amend Articles of Association is adopted by a 2/3 majority of the votes conferred by the shares of the shareholders present at the General Shareholder Meeting. Following the decision by the General Shareholder Meeting to amend the Company's Articles of Association, the full text of the amended Articles of Association shall be drawn up and signed by the person authorised by the General Shareholder Meeting

## 20. Issuer's bodies

The Company's Articles of Association stipulate that the Company shall have the following bodies: the General Shareholder Meeting, the Supervisory Board, the Board and the Company Manager. Articles of Association provide that restrictions on rights of the members of the Company's bodies shall be determined by the Law on Companies of the Republic of Lithuania.

Articles of Association provide that the competence of the General Shareholder Meeting shall be defined by the Law on Companies.

The Supervisory Board is a collegial supervisory body of the Company. The Supervisory Board composed of 3 (three) members is elected by the General Shareholder Meeting for the term of 4 (four) years. The General Shareholder Meeting may remove from office the entire Supervisory Board or its individual members before the expiry of the term of their office.

The Board is a collegial management body of the Company. The Board composed of 6 (six) members is elected by the Supervisory Board for the term of 4 (four) years. The Supervisory Board may remove from office the entire Board or its individual members before the expiry of the term of their office.

The Articles of Association of the Company stipulate that the Board shall deal with major production, organisational, financial and economic issues, analyse and approve the operating strategy, the use of financial resources, approve the organisational and management structure of the Company, elect and remove the Company manager and shall fulfil other functions prescribed by the Law on Companies.

The Company Manager – the Chief Executive Office – is elected and removed under procedure prescribed by the Law on Companies. The competence of the Company Manager is defined by the Law on Companies. The Company Manager shall be responsible for the organisation of the Company's operations, implementation of its objectives, shall be entitled to enter into transactions at his own discretion, save in cases where the Law on Companies provides that there is a decision of the Board to enter into transactions. The Head of Administration shall follow decisions passed by the General Shareholder Meeting, the Supervisory Board and the Board.

## 21. Members of the collegial bodies, the Company Manager, the Chief Financier

Position of the person	Name, surname	Number of the Issuer's shares held	Commencement date	Termination date
<b><u>Supervisory Board</u></b>				
Chairman of the Supervisory Board	Romanas Raulynaitis	10,060	01/12/2007	01/12/2011
Member of the Supervisory Board	Inga Žemkauskienė	-	01/12/2007	01/12/2011
Member of the Supervisory Board	Dalius Balceris	-	01/12/2007	01/12/2011
<b><u>Board</u></b>				
Chairman of the Board	Darius Juozas Mockus	-	28/11/2007	28/11/2011
Member of the Board	Artūras Listavičius	-	28/11/2007	28/11/2011
Member of the Board	Rolandas Vingilis	-	28/11/2007	28/11/2011
Member of the Board	Raimondas Kurlianskis	-	28/11/2007	28/11/2011
Member of the Board	Česlovas Matulevičius	15,730	28/11/2007	28/11/2011
Member of the Board	Aurelijus Racevičius	5,650	28/11/2007	28/11/2011
<b><u>Head of Administration and the Financial Manager</u></b>				
Chief Executive Officer	Česlovas Matulevičius	15,730	01/09/2004	-
Financial Manager	Voldemaras Kallo	7,868	07/11/2003	-

In 2007, the aggregate remuneration of the Chief Executive Officer and the Financial Manager amounted to LTL 434 thousand. No other assets were disposed and no guarantees issued.

The Company has concluded no agreements with members of bodies or employees that would define their

competence in case of their resignation or dismissal without a sound reason or in case of termination of their employment as a result of the change in the control of the Company.

Supervisory Board:

ROMANAS RAULYNAITIS – Chairman of the Supervisory Board.

Participation in the management of other companies:

- Laisvas ir Nepriklausomas Kanalas UAB (company code 123026090, Šeškinės g. 20, Vilnius) member of the Board from 30/12/2003.
- Lawyer at the law firm Raulynaitis, Žemkauskienė ir Partneriai (official seat J. Jasinskio g. 16, Vilnius) employed from 01/06/2004

INGA ŽEMKAUSKIENĖ – member of the Supervisory Board.

Participation in the management of other companies:

- Laisvas ir Nepriklausomas Kanalas UAB (company code 123026090, Šeškinės g. 20, Vilnius) member of the Board from 31/08/2006; Mitnija UAB (company code 134511472, Palemono g. 3, Kaunas), member of the Board from 23/03/2006, lawyer from 01/06/2004.

DALIUS BALCERIS – member of the Supervisory Board. Lawyer from 2005.

Board:

DARIUS JUOZAS MOCKUS – Chairman of the Board. Higher education acquired. Employment record: 1992–1996 Investicijos Fondas IAB, Chairman of the Board hired under the employment agreement; 1996–2000 Minvista UAB, Director from 2000 to 2006; Concern MG Baltic UAB, President from 15/12/2000.

Participation in the management of other companies:

Concern MG Baltic UAB (company code 125459336, official seat J.Jasinskio g.16, Vilnius), Head of Administration/President;

Concern MG Baltic UAB (company code 125459336, official seat J.Jasinskio g.16, Vilnius), Chairman of the Board;

MG Baltic Trade UAB (company code 125313192, official seat J.Jasinskio g.16, Vilnius), General Manager;

Apranga APB (company code 121933274, official seat Kirtimų g.51, Vilnius), member of the Board;

Laisvas ir Nepriklausomas Kanalas UAB (company code 123026090, official seat Šeškinės g. 20, Vilnius), member of the Board.

ARTŪRAS LISTAVIČIUS – member of the Board, Director of Ethyl Alcohol Production Development at AB STUMBRAS AB. Higher education acquired. Employment record: from 01/01/1994 to 27/03/2002 UAB Mineraliniai Vandenyys, Head of Administration/Director (General Manager); till 2005 MG Baltic Trade UAB, Head of Administration (General Manager); from 01/11/2003 to 01/09/2004 Stumbras AB, General Manager; till December 2005 Director of Ethyl Alcohol Production Development at Stumbras AB; from December 2005 Biofuture AB, Chairman of the Board.

Participation in the management of other companies:

MG Baltic Trade UAB (company code 125313192, official seat J.Jasinskio g.16, Vilnius), Chairman of the Board;

Concern MG Baltic UAB (company code 125459336, official seat J.Jasinskio g.16, Vilnius), member of the Board.

ROLANDAS VINGILIS – member of the Board. Higher education acquired. Employment record: 1992–1994 Inovacinė Firma INIT UAB, Director of Vilnius Branch; 1994–1998 Trading M.J.D. UAB, Manager; From 1996 Troja UAB, Director; 1997–1999 Trojos Prekyba UAB, Deputy Director; 1998–1999 Trojina UAB, Acting Director.

Participation in the management of other companies:

Troja UAB (company code 2350162, official seat J.Jasinskio g.16, Vilnius), Head of Administration/Director;

MG Valda UAB (company code 2301033, official seat J.Jasinskio g 16, Vilnius), Chairman of the Board;

Concern MG Baltic UAB (company code 125459336, official seat J.Jasinskio g.16, Vilnius), member of the Board;

MG Baltic Trade UAB (company code 125313192, official seat J.Jasinskio g.16, Vilnius), member of the Board.

AURELIJUS RACEVIČIUS – member of the Board. Higher education acquired. Employment record: 1981–1986 Expert of the Expert and Criminal Division at the Ministry of the Interior; 1986–1990 Head of the Expert and Criminal Unit of Kaunas Internal Affairs Board; 1990–1991 Commissar Inspector of the Expert and Criminal Division of Kaunas Chief Police Commissariat; 1991–1998 Senior Commissioner of the Interpol

Lithuanian National Bureau; 1998–1999 Special Attaché of the Ministry of the Interior to the Lithuanian Mission to the EU, Senior Commissioner; 1999–2000 Director of the Informatics and Communications Department at the Ministry of the Interior; as at 31/05/2000, a retired member of the reserve. From 2005 Biofuture AB, member of the Board.

RAIMONDAS KURLIANSKIS – member of the Board and General Manager of MG BALTIC INVESTMENT UAB (company code 123249022, official seat J.Jasinskio g.16, Vilnius) from 03/06/1998; MG BALTIC MEDIA UAB (company code 211616910, official seat J.Jasinskio g.16, Vilnius), Chairmen of the Board from 30/12/2003; Laisvas ir Nepriklausomas Kanalas UAB (company code 123026090, Šeškinės g. 20, Vilnius), Chairman of the Board from 30/12/2003, Mitnija UAB (company code 134511472, Palemono g. 3, Kaunas), Chairman of the Board from 23/03/2006; Apranga APB (company code 121933274, official seat Kirtimų g. 51, Vilnius), member of the Board; ALFA MEDIA UAB (company code 123405717, official seat J.Jasinskio g.16, Vilnius), member of the Board; UPG BALTIC UAB (company code 300651843, official seat Jonavos g. 254A, Kaunas), member of the Board; MEDIAFON UAB (company code 124424581, official seat Olimpiečių g. 1–31, Vilnius), member of the Board.

ČESLOVAS MATULEVIČIUS – member of the Board and Chief Executive Officer of STUMBRAS AB. Higher education acquired. Employment record: 1991–1995 Minta UAB; 1995–1997 owner of the sole proprietorship; May 1998 – October 1998 Gudrūna UAB, Deputy Director; November 1998 – December 1998 Industrijos Bankas AB, Klaipėda Branch, Cashier; December 1998 – January 1999 Anvija UAB, trade agent; January 1999 – September 1999 Pieno Žvaigždės AB, Deputy Head of Mažeikiai Dairy; September 1999 – July 2002 Pieno Žvaigždės AB, Director of Klaipėda Division; July 2002 – May 2003 Anykščių Vynas AB, Marketing Director; May 2003 – August 2004 Anykščių Vynas AB, Acting General Manager; Chief Executive Officer of Stumbras AB from 01/09/2004.

## 22. Information about significant agreements

The Company has concluded no significant agreements in which the Company is a party to and which would come into effect, change or terminate as a result of the change in the control of the Company.

## 23. Information about the compliance with the Governance Code

Stumbras AB confirms its substantial compliance with the principles of the Governance Code approved by the Vilnius Stock Exchange (VSE) for the companies listed on the regulated market. There were no significant changes subsequent to the Company's report on the compliance with the Governance Code of companies listed on the VSE for the reporting period after the end of 2007. The Report on the compliance with the principles of the Governance Code approved by the Vilnius Stock Exchange (VSE) for the companies listed on the regulated market is presented as a separate written representation.

## 24. Information about transactions with related parties

The major shareholder of the Company is Mineraliniai Vandeny AB which holds 93.30 per cent of the Company's shares. The remaining amount of the Company's shares is held by different small shareholders. Subsidiaries of the Concern MG Baltic UAB are treated as other related parties. Negotiations with related parties regarding services are conducted on "a cost plus" basis. Products are sold based on a price list applicable to unrelated parties.

Results of transactions with related parties performed in 2007 are disclosed in the notes to the financial statements of Stumbras AB as at 31 December 2007.

## 25. Data on publicly announced information

In the period from 1 January 2007 to 31 December 2007, the Company publicly announced information on the website of OMX Client News Service and on the Company's website. In addition, the Company announced dates of General Shareholder Meetings in the daily *Respublika*. The Company's public communications are available on the website of VSE at <http://www.baltic.omxgroup.com/market/?pg=news> and on the Company's website at <http://www.stumbras.eu/investuotojams/>.

Česlovas Matulevičius  
General Director

21 March 2008



## Annexes

### Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company „STUMBRAS“, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<p><b>Principle I: Basic Provisions</b></p> <p><b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b></p>		
<p>1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.</p>	<p>YES</p>	<p>Such kind of information is supplied by company at its web page <a href="http://www.stumbras.net/lt/naujienos?archive=1&amp;npg=7">http:// www.stumbras.net/ lt/naujienos? archive=1&amp;npg=7</a> as well there is a special information for investors at <a href="http://www.stumbras.net/investuotojams/">http://www.stumbras.net/investuotojams/</a>, as in announcements of VVPB and in periodic reports of BNS and DELFI news agencies, reports of newspapers, conferences of media and etc.</p>
<p>1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.</p>	<p>YES</p>	
<p>1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.</p>	<p>YES</p>	
<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>YES</p>	
<p><b>Principle II: The corporate governance framework</b></p> <p><b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b></p>		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders’ meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	YES	
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company’s management bodies.	YES	
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company’s chief executive officer.	NOT APPLICABLE	The company is complied from collegial bodies such as supervisory and executive boards.
2.4. The collegial supervisory body to be elected by the general shareholders’ meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>1</sup>	YES	The norms declared in III and IV principles of Managing Code are posted for work evaluation as well to form the supervisory body. According at present known share holders, when one person is owner of more then 93.3 (ninety-three and three-tenths) percents of all shares and voices, the company is follows all requirements of its II principle and assures the interests of its share holders.
2.5. Company’s management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. <sup>2</sup>	YES	The companies’ supervisory body is comprised from three, and executive body form six persons.

<sup>1</sup> Provisions of Principles III and IV are more applicable to those instances when the general shareholders’ meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company’s board and the chief executive officer and to represent the company’s shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company’s chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company’s management bodies is applied to the extent it concerns independence from the chief executive officer.

<sup>2</sup> Definitions ‘*executive director*’ and ‘*non-executive director*’ are used in cases when a company has only one collegial body.

<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>YES</p>	
<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>YES</p>	
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.<sup>3</sup></b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>YES</p>	<p>The main shareholder for an amount of controlled shares and voices, is able for his interests and without any limitations propose the general shareholders' meeting to cancel the managing collegial body or any member of it which is being on elections.</p>

<sup>3</sup> Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>YES</p>	<p>Under the recommendations of this principle 3.2 paragraph, the company collects and discloses the information about the members of collegial body, as well information about their education, qualification, professional background, potential conflicts, in publicly announced periodic reports.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>YES</p>	
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>	<p>NO</p>	<p>The collegial body and its members are formed according the will of main shareholder.  Auditing committees are not formed.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>YES</p>	

<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient<sup>4</sup> number of independent<sup>5</sup> members.</p>	<p>YES</p>	<p>The company follows the recommendations of Managing Code, because under the regulation 3.2 paragraph 2/3rds members of supervisory body can be assigned as independent members. The independency of collegial bodies members are evaluated under certain criterion deprived by company, i.e. according the factual state of the member in collegial body, or other ran, elected, or appointed officer duties which are related with the company, as well according the person individually declaration of his interests (personally or in the name of spouse or in other way owned the right to vote in other companies and etc.). Mrs. Inga Žemkauskiene and Mr. Dalius Balceris are independent members of supervisory body.</p>
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<sup>4</sup> The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

<sup>5</sup> It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li> <li>5) He/she does not have and did not have any material business relations with the company</li> </ol>	<p>YES</p>	
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<p>or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	<p>YES</p>	
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3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	YES	
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	YES	
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. <sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.	YES	
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. <sup>8</sup>	YES	

<sup>6</sup> It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (*tantiems*) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (*tantiems*) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

<sup>7</sup> See Footnote 3.

<sup>8</sup> See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.



<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>YES</p>	<p>The are no data or any other kind of information leading that members of supervisory body acts not in the interests of company or seek and accept any unjustified privileges that might compromise their independence. According the official information it is factually clear that all members of supervisory board were participating in all of the boards sessions and each member of boards gave an adequate time for his duties of supervisory officer.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>YES</p>	<p>According the official information it is factually clear that all members of supervisory board were participating in all of the boards sessions and each member of boards gave an adequate time for his duties of supervisory officer.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>YES</p>	

<sup>9</sup> It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>YES</p>	
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>10</sup>. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>	<p>YES</p>	

<sup>10</sup> In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>YES</p>	<p>The Audit, Remuneration and Appointment Committees are not formed at the Company. The Board, the managing body of the Company, in the execution of its duties partly performs functions of Audit, Remuneration and Appointment Committees set out in the recommendations. The Board selects the candidacy for the position of the Company Manager, the Chief Executive Officer, candidacies for the positions of other chief management staff and proposes the selected candidates to the Company Manager; regularly assesses their experience, professional abilities and strategic management of the Company; receives their reports. The Board approves all budgets of the Company, controls, receives and hears reports of the Chief Executive Officer and other chief management staff on salaries and execution plans of other Company's approved budgets and their use. The Board selects the auditor of the Company and makes proposals for the General Shareholder Meeting to approve of the selected auditor.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>YES</p>	
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is</p>	<p>NO</p>	<p>There are no committees comprised. A survey of execution of committees functions are in paragraph 4.7.</p>

<p>refreshed and that undue reliance is not placed on particular individuals.</p>		
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>NO</p>	<p>There are no committees comprised. A survey of execution of committees functions are in paragraph 4.7.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>NO</p>	<p>There are no committees comprised. A survey of execution of committees functions are in paragraph 4.7.</p>

<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> <li>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li> <li>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li> <li>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>• Properly consider issues related to succession planning;</li> <li>• Review the policy of the management bodies for selection and appointment of senior management.</li> </ul> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>YES</p>	<p>There are no committees comprised. A survey of execution of committees functions are in paragraph 4.7.</p>
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> <li>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the</li> </ul>	<p>YES</p>	<p>Salary committee is not comprised, but its main functions are executed by Execution Board.</p>

<p>total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</p> <ul style="list-style-type: none"> <li>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li> <li>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</li> <li>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</li> </ul> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> <li>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ul> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> <li>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> <li>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</li> <li>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ul> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the</p>	<p>YES</p>	<p>Audit committee is not formed, but its main functions are executed by Execution Board.</p>
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<p>accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
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<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>		
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p> <p><b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>YES</p>	
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month<sup>11</sup>.</p>	<p>YES</p>	

<sup>11</sup> The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>YES</p>	
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>YES</p>	
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b></p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>YES</p>	
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>YES</p>	
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.<sup>12</sup> All shareholders should be furnished with equal opportunity to</p>	<p>YES</p>	

<sup>12</sup> The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

<p>familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>		
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.</p>	<p>YES</p>	
<p>6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance<sup>13</sup>. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>YES</p>	
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>YES</p>	

<sup>13</sup> The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>NO</p>	<p>In Lithuanian Republic valid legal acts do not foresee such voting form and the company is not technically ready to use such form technological means.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b></p>		
<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>YES</p>	
<p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>	<p>YES</p>	
<p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p>	<p>YES</p>	

<p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>	<p>YES</p>	
<p><b>Principle VIII: Company's remuneration policy</b></p> <p><b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b></p>		
<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.</p>	<p>NO</p>	<p>In the manner prescribed by the laws, the Company, in its periodic reports, announces the aggregate amount of remuneration paid to the Company Manager and chief management staff. The Company follows an approved policy that the system of bonuses and other employment-related payments should not be publicly announced and that such information should be classified as comprising a commercial secret.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>NO</p>	<p>Survey is explained in paragraph 8.1.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> <li>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>• Sufficient information on the linkage between the remuneration and performance;</li> <li>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>• A description of the main characteristics of supplementary pension or early retirement schemes for directors.</li> </ul>	<p>NO</p>	<p>Survey is explained in paragraph 8.1.</p>
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>NO</p>	<p>Survey is explained in paragraph 8.1.</p>

<p>8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	<p>NO</p>	
<p>8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>NO</p>	<p>Survey is explained in paragraph 8.1.</p>
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>• The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ul> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>• The number of share options unexercised at the end</li> </ul>	<p>NO</p>	<p>Survey is explained in paragraph 8.1.</p>

<p>of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <ul style="list-style-type: none"> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ul> <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>NOT APPLICABLE</p>	<p>Such scheme is not applied.</p>
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ul style="list-style-type: none"> <li>• Grant of share-based schemes, including share options, to directors;</li> <li>• Determination of maximum number of shares and main conditions of share granting;</li> <li>• The term within which options can be exercised;</li> <li>• The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.</li> </ul> <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	<p>NOT APPLICABLE</p>	<p>Such form for pay-off is not applied.</p>

<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>NOT APPLICABLE</p>	<p>Such form for pay-off is not applied.</p>
<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	<p>NOT APPLICABLE</p>	<p>Such form for pay-off is not applied.</p>
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	<p>NOT APPLICABLE</p>	<p>Such form for pay-off is not applied.</p>
<p><b>Principle IX: The role of stakeholders in corporate governance</b></p> <p><b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b></p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>YES</p>	



<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	<p>YES</p>	
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>YES</p>	
<p><b>Principle X: Information disclosure and transparency</b></p> <p><b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</b></p>		

<p>10.1. The company should disclose information on:</p> <ul style="list-style-type: none"> <li>• The financial and operating results of the company;</li> <li>• Company objectives;</li> <li>• Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>• Material foreseeable risk factors;</li> <li>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>• Material issues regarding employees and other stakeholders;</li> <li>• Governance structures and strategy.</li> </ul> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p>	<p>YES</p>	
<p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>YES</p>	
<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p>	<p>YES</p>	
<p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>YES</p>	

<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>YES</p>	
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	<p>YES</p>	
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	<p>YES</p>	
<p><b>Principle XI: The selection of the company's auditor</b></p>		
<p><b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
<p>11.1. An interim and annual audit of the company's financial statements and annual report should be conducted by an independent firm of auditors in order to provide an objective opinion on the company's financial statements.</p>	<p>YES</p>	<p>Annual financial statements and annual report of the Company is audited by the independent audit company.</p>
<p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p>	<p>YES</p>	
<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>YES</p>	