



VILNIAUS DEGTINĖ

ABRO 1912

2008-05-21 Nr. 03-353

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CONFIRMATION BY THE PERSONS IN CHARGE

Following the provisions of Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Presentation of Periodic and Supplementary Information of Securities Commission of the Republic of Lithuania, we, Director General of AB Vilniaus Degtinė Danas Kerbelis and Finance and Administration Director Audra Jauniškienė, hereby confirm that the interim financial statements for 3 months of 2008 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, to the best of our knowledge, give a fair and true view of assets, liabilities, financial status and the profit for the period of AB Vilniaus Degtinė.

Enclosure. Interim financial statements of AB Vilniaus Degtinė for 3 months of 2008 (39 pages).

Director General

Danas Kerbelis

Finance and Administration Director

Audra Jauniškienė



AB Vilniaus Degtinė

Interim Financial Statements
for three months of 2008

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Company information

AB Vilniaus Degtinė

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

Management

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

Board

Darius Žaromskis
Raimundas Čičirka
Danas Kerbelis
Audra Jauniškienė
Andrejus Galuška

Auditor

UAB KPMG Baltics

Banks

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

Balance sheet

In LTL	Notes	31/03/2008	31/12/2007
ASSETS			
Non-current assets			
Property, plant and equipment	13	21,156,852	19,956,913
Intangible assets	14	15,630,463	15,894,114
Other non-current assets	15	258,960	1,000
Total non-current assets		37,046,275	35,852,027
Current assets			
Inventories	16	13,379,936	12,205,381
Prepayments and future expenses	17	685,610	1,165,961
Trade receivables	18	19,432,044	37,842,407
Other receivables	19	1,051,804	995,688
Cash and cash equivalents	20	86,163	72,174
Total current assets		34,635,557	52,281,611
TOTAL ASSETS		71,681,832	88,133,638

Notes on pages 8–39 are an integral part of these financial statements.

Balance sheet (cont'd)

In LTL	Notes	31/03/2008	31/12/2007
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	24,408,431	24,408,431
Legal reserve		2,440,843	2,440,843
Retained earnings (loss)		10,775,688	10,398,154
Total equity		37,624,962	37,247,428
Non-current liabilities			
Interest bearing loans and borrowings	23	6,808,922	7,660,037
Deferred income tax liability		646,616	633,159
Total non-current liabilities		7,455,538	8,293,196
Current liabilities			
Interest bearing loans and borrowings			
	23	14,298,905	12,097,671
Trade payables		4,472,351	9,893,056
Income tax payable		0	0
Other payables	24	7,830,076	20,602,287
Total current liabilities		26,601,332	42,593,014
Total liabilities		34,056,870	50,886,210
TOTAL EQUITY AND LIABILITIES		71,681,832	88,133,638

Notes on pages 8–39 are an integral part of these financial statements.

Income statement

In LTL	Notes	Jan-Mar 2008	Jan-Mar 2007
Sales revenue	4	13,431,713	12,032,125
Cost of sales		(7,342,850)	(6,233,769)
Gross profit	4	6,088,863	5,798,356
Other income	5	57,711	42,350
Sales and distribution expenses	6	(2,433,466)	(2,585,860)
Administrative expenses	7	(2,963,217)	(2,475,222)
Other expenses	5	(6,452)	(12,170)
Result from operating activities		743,439	767,454
Financial income	9	10,846	5,450
Financial expenses	9	(305,130)	(175,553)
Profit before tax		449,155	597,351
Corporate income tax	10	(71,621)	(109,547)
Profit for the period		377,534	487,804
Basic and diluted earnings per share	22	0.02	0.02

Notes on pages 8–39 are an integral part of these financial statements.

Statement of changes in shareholders' equity

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
Capital and reserves as of 1 January 2007		24,408,431	2,440,843		8,716,239	35,565,513
Profit for Q1 2007					487,804	487,804
Capital and reserves as of 31 March 2007		24,408,431	2,440,843		9,204,043	36,053,317
Profit for the reporting period					1,194,111	1,194,111
Capital and reserves as of 31 December 2007		24,408,431	2,440,843	0	10,398,154	37,247,428
Profit for Q1 2008					377,534	377,534
Capital and reserves as of 31 March 2008	21	24,408,431	2,440,843	0	10,775,688	37,624,962

Notes on pages 8–39 are an integral part of these financial statements.

Statement of cash flows

In LTL

	Jan-Mar 2008	Jan-Mar 2007
Profit (loss) for the period	377,534	487,804
Depreciation and amortisation	879,456	802,914
Impairment on construction in progress	34,114	(99,580)
Impairment of trade receivables and other receivables	(356)	
Impairment of inventories		(3)
Net financial expenses	292,541	169,944
Gain (loss) on disposal of non-current assets	(8,096)	647
Income tax expenses	71,621	109,547
Net cash flows from ordinary activities before changes in working capital	1,646,814	1,471,273
Change in inventories	(1,174,555)	(799,880)
Change in prepayments	480,351	196,063
Change in trade receivables and other receivables	18,378,552	10,340,811
Change in trade payables and other payables	(18,154,632)	(8,630,239)
Net cash flows from operating activities	(470,284)	1,106,755
Income tax paid	(70,407)	
Net cash flows from operating activities	1,106,123	2,578,028
Interest received	140	5,157
Proceeds from disposal of non-current assets	8,100	170
Acquisition of property, plant and equipment	(1,849,862)	(888,331)
Acquisition of intangible non-current assets		(29,790)
Loans granted	(258,960)	
Net cash flows from investing activities	(2,100,582)	(912,794)
Repayment of loans	(1,049,881)	(851,116)
Loans received	2,400,000	
Financial lease payments		
Interest paid	(341,671)	(222,983)
Dividends paid		
Net cash flows from financing activities	1,008,448	(1,072,099)
Net cash flows from operating, investing and financing activities	13,989	593,135
Cash and cash equivalents at the beginning of the period	72,174	384,747
Cash and cash equivalents at the end of the period	86,163	977,882

Notes on pages 8–39 are an integral part of these financial statements.

Notes

1 Reporting entity

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

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

Shareholder	Number of shares	Nominal value in LTL	Total value in LTL
Sobieski Sp.z.o.o.	16,668,632	1	16,668,632
Darius Žaromskis	2,440,843	1	2,440,843
Arūnas Tuma	2,440,843	1	2,440,843
Other minor shareholders	2,858,113	1	2,858,113
Total capital	24,408,431	1	24,408,431

The Company is primarily involved in the production of and trade in alcoholic beverages: vodkas, bitters, liqueurs and other alcoholic beverages. The facilities for alcoholic beverage production are located in Vilnius; however, the spirit production facilities are located with the subsidiary of the Company in Obeliai.

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

AB Vilniaus Degtinė employed 228 staff members as of 31 March 2008 (237 staff members as of 31 March 2007).

2 Summary of significant accounting principles

Statement of compliance

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

The financial statements for the period from January to March 2008 presented below are preliminary and unaudited.

Notes

2 Summary of significant accounting principles (cont'd)

Basis of preparation

The financial statements are presented in the national currency Litas, which is the functional currency of the Company. They are prepared on the historical basis.

The preparation of the financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS as adopted by the European Union that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Company as set forth below have been consistently applied and coincide with those applied last year.

Foreign currency

Translation of amounts in foreign currencies into the national currency

Transactions in foreign currencies are translated at foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Notes

2 Summary of significant accounting principles (cont'd)

Non-derivative financial instruments

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Cash and cash equivalents include cash balances and demand deposits.

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

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

Receivables are non-derivative financial assets and are not quoted in an active market. They are included into current assets except for maturities greater than 12 months. Loans issued and receivables are initially recognised at fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method, less impairment, if any. Current receivables are not discounted.

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

Financial derivatives

The Company did not use or have derivative financial instruments as of 31 March 2008.

Property, plant and equipment

Recognition and measurement

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

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

Notes

2 Summary of significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such item or major overhaul when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Company and the cost of an item can be measured reliably. All other costs are recognised in the income statement as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- | | | |
|----------------------------|-------|-------|
| • Buildings and structures | 12–20 | years |
| • Plant and machinery | 5–20 | years |
| • Vehicles | 4–10 | years |
| • Other assets | 5–15 | years |

Depreciation methods, residual values and useful lives are reassessed on each day of presenting the statement.

Notes

2 Summary of significant accounting principles (cont'd)

Non-current intangible assets

Intangible assets that have limited useful life and that include computer software and other licences and trademarks acquired by the Company are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the income statement on a straight-line basis over the entire service life. The amortisation rates of intangible assets can be specified as follows:

- Software and licences 3 years
- Sobieski trademark 20 years

Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are written off when incurred.

Leased assets

Leases, in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Inventories

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

The costs of inventories is determines based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes

2 Summary of significant accounting principles (cont'd)

Inventories (cont'd)

Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

The Company accounts for bottles as current assets in inventory, since they are not expected to be reused following the initial delivery. Bottles are booked to the cost of finished goods when used in production.

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

Impairment

Financial asset is impaired if there are if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Individually significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset that is deemed impaired on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that is tested for impairment on a portfolio basis.

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

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

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

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with short duration are not discounted.

Notes

2 Summary of significant accounting principles (cont'd)

Calculation of recoverable amount (cont'd)

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividends

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

Employee allowances

The company has no determined allowances and inducement plans or payment schemes concerning its shares. Liabilities against retired former employees of the company are fulfilled by the State.

Provisions

Provisions are recognised in the balance sheet when it is probable that an outflow of economic benefits will be required to settle the obligation arising from a past event or fulfilment of irrevocable undertakings.

Revenue

Sales of goods

Revenue from the sale of goods is recognised in the income statement when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with

Notes

2 Summary of significant accounting principles (cont'd)

Sales of goods (cont'd)

the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT, excise tax and price discounts directly related to the sales.

Services rendered, assets disposed

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

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

Revenue from disposal of assets is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or return of assets disposed is possible or when the significant risks and rewards of ownership cannot be regarded as transferred to the buyer.

Expenses

Operating lease payments

Payments made under operating lease are recognised in the income statement on a straight-line basis over the term of lease.

Financial lease payments

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

Net financing costs

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

Interest income is recognised in the income statement as accrued, using the effective interest method. The interest expense component of financial lease payments is recognised in the income statement, using the effective interest rate method.

Notes

2 Summary of significant accounting principles (cont'd)

Income tax

Income tax consists of current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to the items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets is recognised only to the extent it is likely that the future taxable profits will be available against which the assets can be utilised. Deferred tax asset is reduced to the extent it is no longer probable that the related tax benefit will be realised.

Segment reporting

Segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments.

Earnings per share

The Company presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. During reporting periods there were no any dilutive potential ordinary shares issued by the Company.

Notes

3 Critical accounting estimates and judgements

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events.

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

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with defaults on assets in the Company.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Then methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses on construction in progress

Construction in progress is related with the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. The construction in progress is quarterly tested for impairment and based on management estimates the impairment loss is recognised for the unused equipment installed in the construction in progress.

Impairment losses on trademark

The Company uses trademark Sobieski, which is amortised on a straight line basis over a period of 20 years. The service life of this trademark can differ from currently used accounting estimates due to the possible changes of the life cycle of the products market by this trademark as a result of market conditions. According to the management, considering the current situation, the service life used in the accounting is justifiable.

Notes

4 Segment reporting

The Company is primarily involved in the production of and trade in alcoholic beverages. Besides, the Company produces and distributes rectified, methylated alcohol, has other income. Considering the share of the sales of these products in total income, only one segment can be distinguished in the Company - production of alcoholic drinks and related products.

Revenue and gross profit for January-March 2008 are presented below:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	12,291,901	564,381	24,597	550,834	13,431,713
Gross profit	5,816,989	81,425	10,995	179,454	6,088,863

Revenue and gross profit for January-March 2007 are presented below:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	11,495,227	519,118	17,780		12,032,125
Gross profit	5,649,871	140,816	7,669		5,798,356

The Company's primary activities are carried out in the Lithuanian market, yet a small part of its production is exported to EU countries and abroad. In January-March 2008, sales to EU and foreign markets amounted to LTL 669,398 (in January-March 2007 they were LTL 355,783). Considering the share of product sales in foreign markets in total revenue, no geographical segments are distinguished in the Company.

Notes

In LTL	Jan-Mar 2008	Jan-Mar 2007
5 Income and expenses of other activities		
Lease of premises	21,632	21,091
Income from sales of materials and spare parts	18,635	12,619
Result of the sales of non-current assets	8,096	0
Other income	9,348	8,640
Total other income	57,711	42,350
Other expenses	6,452	11,523
Loss on sales of materials and spare parts	0	0
Loss of sales of non-current assets		647
Total other expenses	6,452	12,170
Net income and expenses of other activities	51,259	30,180
In LTL	Jan-Mar 2008	Jan-Mar 2007
6 Sales and distribution expenses		
Advertising expenses	1,295,453	1,435,673
Marketing expenses	630,087	760,785
Salaries and social security	289,575	204,423
Transportation expenses	168,667	134,069
Market research expenses	7,275	19,771
Packaging expenses	22,591	18,524
Other	19,818	12,615
Total sales and distribution expenses	2,433,466	2,585,860

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

Notes

	In LTL	Jan-Mar 2008	Jan-Mar 2007
7	Administrative expenses		
	Salaries and social security	1,227,290	1,070,780
	Repairs and maintenance	329,368	302,476
	Amortisation	120,272	145,501
	Operating and other taxes	263,651	258,591
	Depreciation	202,931	170,583
	Consulting and training expenses	137,071	73,018
	Maintenance of cargo vehicles	106,840	93,090
	Security expenses	77,050	74,318
	Representation expenses	15,844	11,623
	Sponsorship and other	11,265	49,416
	Communications and IT maintenance expenses	50,715	40,366
	Utilities	46,425	90,396
	Impairment of construction in progress	34,114	(99,580)
	Impairment of inventories	0	(3)
	Other	340,381	194,647
	Total administrative expenses	2,963,217	2,475,222

Notes

In LTL	Jan-Mar 2008	Jan-Mar 2007
8 Personnel expenses		
Wages and salaries	1,783,484	1,432,576
Social security contributions	552,318	456,408
Total personnel expenses	2,335,802	1,888,984

Personnel expenses for January-March 2008 and January-March 2007 include change in accrued vacation compensations.

Personnel expenses for January-March 2008 include wages and salaries for the management in the amount of LTL 142,344 (LTL 132,149 for January-March 2007).

As of 31 March 2008, the interest-free loans issued to the management amounted to LTL 18,000. (No loans were granted to the management as of 31 March 2007).

As of 31 March 2008, 228 employees were working for the Company (as of 31 March 2007 - 237 employees).

Notes

In LTL	Jan-Mar 2008	Jan-Mar 2007
9 Financial income and expenses		
Interest income	10,846	5,319
Other income	0	131
Total financial income	10,846	5,450
Interest on loans and lease liabilities	303,387	175,263
Foreign exchange loss	706	290
Other	1,037	
Total financial expenses	305,130	175,553
Financial income and expenses, net	(294,284)	(170,103)

In LTL	Jan-Mar 2008	Jan-Mar 2007
10 Corporate income tax expenses		
Current tax	58,164	73,842
Change in deferred income tax	13,457	35,705
Total income tax expenses	71,621	109,547

The reconciliation of the effective tax rate is as follows:

In LTL		Jan-Mar 2008		Jan-Mar 2007
Profit before tax		449,155		597,351
Income tax using the effective tax rate	15.0%	67,373	18.0%	107,523
Charity expenses deducted twice	(0.2%)	(1,017)	(0.3%)	(2,120)
Non-deductible representation expenses	0.0%	207	0.0%	281
Non-deductible value added tax	0.3%	1,233	0.0%	241
Written-off multiple usage tare	0	0		
Other non-deductible expenses	0.8%	3,825	1.8%	10,763
Effect of change in tax rate	0.0%	0	(1.2)%	(7,141)
	15.9%	71,621	18.3%	109,547

Notes

11 Deferred tax

	Jan-Mar 2008		Jan-Mar 2007	
In LTL	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
Impairment of other receivables	885,209	132,781	885,209	132,781
Impairment of trade receivables	731,426	109,714	1,072,419	160,863
Impairment of construction in progress	579,936	86,990	443,481	66,522
Impairment of inventories	0	0	9,972	1,496
Accrued social security expenses for vacation reserve	207,137	31,071	165,501	24,825
Total deferred tax asset		360,556		386,487
Difference in depreciation of property, plant and equipment	(3,337,625)	(500,644)	(3,509,353)	(526,403)
Difference in amortisation of intangible assets	(2,455,140)	(368,271)	(1,363,967)	(204,595)
Carrying value of non-current assets that are subject to investment relief	(921,714)	(138,257)	(1,222,325)	(183,348)
Total deferred tax liability		(1,007,172)		(914,346)
Net deferred tax		(646,616)		(527,859)

The current profit tax rate for the 2008 is 15%. According to the amended Lithuanian tax legislation, for the taxable periods starting 1 January 2006 to 31 December 2007 companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred taxes in 2007 and in 2006 do not take into account the additional social tax imposed on taxable profits because it was considered to be immaterial.

The movement of deferred income tax is as follows:

In LTL	Jan-Mar 2008	Jan-Mar 2007
Deferred income tax liability as of 1 January	(633,159)	(492,154)
Change in deferred income tax	(13,457)	(35,705)
Deferred income tax liability as of 31 March	(646,616)	(527,859)

Notes

12 Income tax

In LTL	Jan-Mar 2008	Jan-Mar 2007
Overpaid income tax (liability) as of 1 January	1,327	(259,481)
Income tax for the period	(58,164)	(73,842)
Income tax paid	70,407	0
Overpaid income tax (liability) as of 31 March	13,570	(333,323)

Notes

13 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Constructio n in progress	Other tangible assets	Total
Cost as of 1 January 2007	14,837,599	14,326,427	1,207,609	2,378,212	3,635,421	131,014	36,525,282
Additions	0	286,396	0	83,913	232,622	285,399	888,331
Disposals	0	0	(5,500)	0	0	0	(5,500)
Transfer from inventories	1,175,506	75,441	0	5,000	(1,124,933)	(131,014)	0
Cost as of 31 March 2007	16,013,105	14,688,264	1,202,109	2,476,125	2,743,111	285,399	37,408,113
Accumulated depreciation as of 1 January 2007	5,898,769	8,901,575	654,852	1,704,832	543,060	0	17,703,088
Depreciation for the Q1	137,677	312,922	33,275	60,449	0	0	544,323
Impairment loss	0	0	0	0	(99,580)	0	(99,580)
Disposals	0	0	(4,683)	0	0	0	(4,683)
Accumulated depreciation as of 31 March 2007	6,036,446	9,214,497	683,444	1,765,281	443,480	0	18,143,148
Net book value as of 31 March 2007	9,976,659	5,473,767	518,665	710,844	2,299,631	285,399	19,264,965
Cost as of 1 January 2008	16,359,819	15,758,949	1,631,089	2,421,980	2,911,846	530,520	39,614,203
Additions	24	273,023	423	66,259	0	1,510,133	1,849,862
Disposals	0	(35,666)	0	0	0	0	(35,666)
Reclassifications	500,000	19,640	0	0	0	(519,640)	0
Cost as of 31 March 2008	16,859,843	16,015,946	1,631,512	2,488,239	2,911,846	1,521,013	41,428,399
Accumulated depreciation as of 1 January 2008	6,508,290	10,014,405	790,517	1,798,256	545,822	0	19,657,290
Depreciation for the Q1	158,977	348,289	43,440	65,099	0	0	615,805
Impairment loss	0	0	0	0	34,114	0	34,114
Disposals	0	0	(35,662)	0	0	0	(35,662)
Accumulated depreciation as of 31 March 2008	6,667,267	10,327,032	833,957	1,863,355	579,936	0	20,271,547
Net book value as of 31 March 2008	10,192,576	5,688,914	797,555	624,884	2,331,910	1,521,013	21,156,852

Notes

13 Property, plant and equipment (cont'd)

Construction in progress is related with the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. The construction in progress is quarterly tested for impairment and based on management estimates the impairment loss is recognised for the unused equipment installed in the construction in progress.

The depreciation was distributed as follows:

In LTL	31.03.2008	31.03.2007
Cost of sales	212,806	233,110
Inventories	193,976	140,629
Administrative and other expenses	209,023	170,584
Total	615,805	544,323

Notes

14 Non-current intangible assets

In LTL	Patents, licences	Software	Other	Total
Cost as of 1 January 2007	214,515	447,889	18,913,672	19,576,076
Additions during the Q1	0	29,790	0	29,790
Disposals	0	0	0	0
Cost as of 31 March 2007	214,515	477,679	18,913,672	19,605,866
Accumulated amortisation as of 1 January 2007	194,768	335,919	2,206,595	2,737,282
Amortisation for the Q1	4,386	17,784	236,421	258,591
Disposals	0	0	0	0
Accumulated amortisation as of 31 March 2007	199,154	335,703	2,443,016	2,995,873
Net book value as of 31 March 2007	15,361	123,976	16,470,656	16,609,993
Cost as of 1 January 2008	202,384	528,949	18,913,672	19,645,005
Additions during the Q1	0	0	0	0
Disposals	0	0	0	0
Cost as of 31 March 2008	202,384	528,949	18,913,672	19,645,005
Accumulated amortisation as of 1 January 2008	196,860	401,752	3,152,279	3,750,891
Amortisation for the Q1	2,304	24,926	236,421	263,651
Disposals	0	0	0	0
Accumulated amortisation as of 31 March 2008	199,164	426,678	3,388,700	4,014,542
Net book value as of 31 March 2008	3,220	102,271	15,524,972	15,630,463

All amortisation expenses are included under operating expenses.

In LTL	31.03.2008	31.12.2007
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15 Other non-current assets

Non-current loans granted	258,960	0
Non-current guarantees granted	0	1,000

Iš viso kito ilgalaikio turto	258,960	1,000
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Non-current loans granted: EUR 75,000 (LTL 258,960) loan to an related company (6.0% fixed interest rate, term of repayment of the granted loan: December 2009).

Notes

	In LTL	31.03.2008	31.12.2007
16 Inventories			
Raw materials		10,349,617	10,827,494
Finished goods		2,412,613	869,364
Goods for resale		572,512	467,415
Work in progress		45,194	41,108
Total inventories		13,379,936	12,205,381
	In LTL	31.03.2008	31.12.2007
17 Prepayments and deferred expenses			
Prepayments to suppliers		142,553	574,745
Deferred advertising expenses		399,147	457,623
Deferred insurance and subscription		85,739	105,797
Other		58,171	27,796
Total prepayments and deferred expenses		685,610	1,165,961
	In LTL	31.03.2008	31.12.2007
18 Trade receivables			
Trade receivables		20,163,470	38,574,189
Impairment allowance for bad debts		(731,426)	(731,782)
Net trade receivables		19,432,044	37,842,407

Notes

18 Trade receivables (cont'd)

Impairment of receivables for bad debts in January-March 2008 decreased when the Company has written-off bad debts. Change in impairment of receivables can be presented as follows:

In LTL	31.03.2008	31.12.2007
Impairment allowance for bad debts as of 1 January	(732,782)	(1,072,419)
Reverse of impairment allowance for bad debts	356	340,637
Impairment allowance for bad debts as of 31 December	(731,426)	(731,782)

19 Other receivables

In LTL	31.03.2008	31.12.2007
Loans granted	763,555	730,375
Prepayments to the Tax Inspectorate	248,807	248,807
Other receivables	39,442	16,506
Doubtful receivables	885,209	885,209
Total other receivables before write-down allowance	1,937,013	1,880,897
Write-down allowance	(885,209)	(885,209)
Total other receivables, net	1,051,804	995,688

The prepayment to the Tax Inspectorate is a guarantee for payment of excise tax and exported production payments. Loans granted: loan of EUR 185,760 (LTL 641,392) to two related companies (5.5 % fixed annual interest rate, maturity of the loans granted – December 2008) and interest-free loan of LTL 122,163 to employees of the Company.

Change in impairment allowance of receivables was as follows:

In LTL	31.03.2008	31.12.2007
Impairment allowance for bad debts and other receivables as of 1 January	(885,209)	(885,209)
Reverse of impairment allowance for bad debts	0	0
Impairment allowance for bad debts and other receivables at the end of the period	(885,209)	(885,209)

Notes

In LTL		31.03.2008	31.12.2007
20	Cash and cash equivalents		
	Cash at bank and in hand	86,163	72,174
	Total cash and cash equivalents	86,163	72,174

Cash in the bank (LTL 2,069 as of 31 March 2008 and LTL 1,148 as of 31 December 2007) and the current and futures cash inflows to the bank accounts are pledged to secure the repayment of bank loans (Note 27).

21 Capital and reserves

Share capital

The share capital is made of 24,408,431 ordinary shares with the nominal value of LTL 1 each and the total share capital is LTL 24,408,431, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to dividends as declared from time to time and to capital repayment in case of and a share of residual assets. One ordinary share gives a right to one vote at the shareholders' meeting.

Legal reserve

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

Notes

22 Earnings per share

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

	Jan-Mar 2008	Jan-Mar 2007
Number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	377,534	487,804
Earnings per share, in LTL	0.02	0.02

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

In LTL	31.03.2008	31.12.2007
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23 Interest bearing loans and borrowings

Non-current liabilities

Bank loans	6,808,922	7,660,037
Total non-current liabilities	6,808,922	7,660,037

Current liabilities

Overdraft	8,494,444	8,693,210
Bank loans	5,804,461	3,404,461
Total current liabilities	14,298,905	12,097,671
Total	21,107,827	19,757,708

Notes

23 Interest bearing loans and borrowings (cont'd)

Terms and repayment schedule:

In LTL	Total	Up to 1 year	1-2 years	2-5 years	Over 5 years
Overdraft of LTL 9,000,000 – variable at the rate of 1 month's Vilibor + 1.15%	8,494,444	8,494,444			
Loan of EUR 4,930,000 (LTL 17,022,304) – variable at the rate of 3 months' EURIBOR + 1.45%	10,213,382	3,404,461	3,404,461	3,404,460	0
Short-term loan of LTL 2,400,000 – fixed rate of 6.5%	2,400,000	2,400,000			
Total financial liabilities	21,107,827	14,298,905	3,404,461	3,404,461	0

The effective annual interest rates of the loan and overdraft of the Company as of 31 March 2008 were 6.1% and 5.5%, respectively. The interest rate of financial liabilities has been established on the basis of the market interest rates; therefore, the carrying amount of the loans is the same as their fair value.

In order to secure the bank loans, the Company has pledged tangible and intangible non-current assets, inventories, cash and cash inflows to the bank accounts and trade receivables. For further comments refer to Note 27.

In LTL	31.03.2008	31.12.2007
24 Other payables		
Payable excise tax	3,630,663	14,866,664
Payable VAT	2,468,711	4,143,887
Vacation reserve	873,448	736,586
Taxes payable	335,766	34,377
Accrued expenses	71,801	95,022
Other payables	449,687	725,751
Total other payables	7,830,076	20,602,287

Notes

25 Financial instruments

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

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

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

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

Credit risk

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

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

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

Liquidity risk

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

The Company's policy is to maintain sufficient cash to cover planned operating expenditure, including financial liabilities; such security does not cover the influence unforecastable force majeure (such as natural calamities). Moreover, the Company has concluded a contract for overdraft limited to LTL 9,000,000.

Notes

25 Financial instruments (cont'd)

Market risk

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

Interest rate risk

The Company's borrowings are subject to variable interest rates related to EURIBOR and VILIBOR. As of 31 March 2008, the Company did not use any financial instruments to hedge its exposure to the cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rates.

Foreign exchange risk

The functional currency of the Company is Litas (LTL). The Company faces foreign currency risk on purchases and borrowings that are denominated in currencies other than Litas or Euro. The risk related to the transactions in EUR is considered to be insignificant as the Lithuanian Litas is pegged to Euro at a fixed rate. The Company does not have any material exposure in other foreign currencies as of 31 March 2008 and 31 December 2007.

Capital management

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

The Board also strives for maintaining the balance between higher return, which could be achieved through a higher level of borrowed funds, and safety, which is provided by a higher level of owner's equity.

The Company's capital management policy did not change in January-March 2008.

Notes

26 Related party transactions

Related parties of the Company are:

- parties that control, is controlled by or is under common control with the Company;
- parties that can have material impact on the activities of the Company;
- parties that are management members of the company or its parent company;
- close members of the family of the aforesaid persons;
- companies that are under control or material impact of the aforesaid persons.

Parent and ultimate parent companies are as follows:

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

Other main related parties are:

Company	Relationship
UAB Belvedere Prekyba	Belvedere group company
Sobieski Destylarnia S.A.	Belvedere group company
Vinimpex PLC	Belvedere group company
UAB Belvedere Baltic	Belvedere group company
Fabryka Wodek Polmos Lancut	Belvedere group company
Gemaco	Belvedere group company
I CH PTUP Vuador	Belvedere group company
I000 Galiart Belvedere S.A.	Belvedere group company
PHP Wiesław Wawrzyniak	Belvedere group company
Chais Beaucairois SAS	Belvedere group company
Domain Menada Sp. Z.o.o.	Belvedere group company
Darius Žaromskis	Shareholder
Arūnas Tuma	Shareholder

Notes

26 Related party transaction (cont'd)

Sales to and purchases from related parties during the reporting periods ended 31 March 2008 and 31 March 2007 are as follows:

Company	Type of transaction	Jan-Mar 2008	Jan-Mar 2007
Purchases from:			
Belvedere group companies	Purchase of services	653,041	764,792
Belvedere group companies	Purchase of raw materials	330,027	90,085
Shareholder	Purchase of services	77,400	47,400
Belvedere group companies	Purchase of non-current assets	0	0
Parent company	Purchase of inventories	91,838	0
Total purchases		1,152,306	902,277
Sales to:			
Belvedere group companies	Sales of production including excise tax	19,923,017	23,819,063
Parent company	Sales of production including excise tax	181,675	126,932
Parent company	Other income	0	0
Ultimate parent company	Sales of production including excise tax	0	0
Belvedere group companies	Sales of services	95,511	16,863
Total sales		20,200,203	23,962,858
Excise tax		13,610,470	16,520,307
Total sales net of excise tax		6,589,733	7,442,551

Notes

26 Related party transactions (cont'd)

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

Company	31.03.2008	31.12.2007
Trade receivables		
From Belvedere group companies	9,363,200	17,427,768
From ultimate parent company	73,676	73,676
From parent company	235,621	53,947
Total trade receivables	9,672,497	17,555,391
Trade payables		
To Belvedere group companies	289,880	976,503
Total trade payables	289,880	976,503

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

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

Notes

27 Off-balance and other liabilities

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

In LTL	31.03.2008	31.12.2007
Carrying amount of pledged buildings and structures	9,018,215	8,585,436
Carrying amount of pledged trademarks	15,524,972	15,761,393
Carrying amount of pledged inventories	13,379,936	12,205,381
Cash pledged to the bank	2,069	1,148

In addition to the aforesaid cash, the Company has pledged the cash flows to the accounts with the bank that issued the loans and overdraft.

Besides, on 31 March 2008, the Company pledged trade receivables, which amounted to LTL 12,922,601 as of 31 March 2008 (LTL 22,124,936 as of 31 December 2007).

In connection with the credit liabilities to the bank, the Company has additional requirements for the capital. During the term of the loan contract, the ratio of the shareholders' equity and assets recorded in the balance sheet must be at least 50 percent. Limit service coverage ratio – 120 percent. As of 31 March 2008, these ratios were 52.5 and 136.1 percent respectively.

On 28 September 2007, the Company issued a commitment to Tax Inspectorate to execute tax liabilities arising in relation to the storage and transportation of goods subject to excise tax. The commitment amounts to LTL 7,950,000 and is valid until 30 September 2008.

28 Fair value of financial instruments

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

Notes

28 Fair value of financial instruments (cont'd)

Carrying amount of assets and liabilities provided in the balance sheet as of 31 March 2008 does not significantly differ from their balance sheet value, except non-current real estate, the depreciated cost-price of which significantly differs from its fair value.

Financial assets as of 31 March 2008:

In LTL	Balance-sheet value	Fair value
Advance payments and expenditure of future periods	685,610	685,610
Trade debtors	19,432,044	19,432,044
Other amounts receivable	1,051,804	1,051,804
Cash and cash equivalents	86,163	86,163
Total	21,255,621	21,255,621

Financial liabilities as of 31 march 2008:

In LTL	Balance-sheet value	Fair value
Loan and other amounts exposed to calculation of interest rate	21,107,827	21,107,827
Amounts payable to suppliers	4,472,351	4,472,351
Other amounts payable	7,830,076	7,830,076
Total	33,410,254	33,410,254